



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyfrifon Cyhoeddus](#)

[The Public Accounts Committee](#)

14/11/2016

[Agenda'r Cyfarfod](#)
[Meeting Agenda](#)

[Trawsgrifiadau'r Pwyllgor](#)
[Committee Transcripts](#)

Cynnwys Contents

- 5 Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest
- 6 Papurau i'w Nodi
Papers to Note
- 6 Llywodraeth Cymru yn Ariannu Kancoat Ltd: Sesiwn Dystiolaeth gyda
Llywodraeth Cymru
The Welsh Government's Funding of Kancoat Ltd: Evidence Session
with the Welsh Government
- 35 Maes Awyr Caerdydd: Ymateb Llywodraeth Cymru i Adroddiad
Pwyllgor y Pedwerydd Cynulliad
Cardiff Airport: Welsh Government Response to Fourth Assembly
Committee's Report
- 47 Gwasanaeth Awyr oddi mewn i Gymru—Caerdydd i Ynys Môn: Y
Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Intra-Wales—Cardiff to Anglesey—Air Service: Update from the Welsh
Government
- 53 Buddsoddiad Llywodraeth Cymru yn Seilwaith Band Eang y
Genhedlaeth Nesaf: y Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Welsh Government Investment in Next Generation Broadband
Infrastructure: Update from the Welsh Government
- 61 Ymchwiliad i Werth am Arian Buddsoddi mewn Traffyrdd a
Chefnffyrdd: Y Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Inquiry into Value for Money of Motorway and Trunk Road Investment:
Update from the Welsh Government
- 69 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynnddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle y mae cyfranwyr wedi darparu cywiriadau i'w tystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges Bywgraffiad Biography	Llafur Labour
Neil McEvoy Bywgraffiad Biography	Plaid Cymru The Party of Wales
Rhianon Passmore Bywgraffiad Biography	Llafur Labour
Nick Ramsay Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Lee Waters Bywgraffiad Biography	Llafur Labour

Eraill yn bresennol
Others in attendance

Gillian Body	Swyddfa Archwilio Cymru Wales Audit Office
Simon Jones	Cyfarwyddwr Trafnidiaeth a Seilwaith TGCh, Llywodraeth Cymru Director Transport and ICT Infrastructure, Welsh Government
Mick McGuire	Cyfarwyddwr Sectorau a Busnes, Llywodraeth Cymru Director, Sectors and Business, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
James Price	Dirprwy Ysgrifennydd Parhaol, Grŵp yr Economi, Sgiliau ac Adnoddau Naturiol, Llywodraeth Cymru Deputy Permanent Secretary, Economy, Skills and

Natural Resources Group, Welsh Government

Mike Usher Swyddfa Archwilio Cymru
Wales Audit Office

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Claire Griffiths Dirprwy Clerc
Deputy Clerk

Meriel Singleton Clerc
Clerk

Joanest Varney- Uwch-gynghorydd Cyfreithiol
Jackson Senior Legal Adviser

Dechreuodd y cyfarfod am 14:01.
The meeting began at 14:01.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Nick Ramsay:** I welcome members of the committee to this afternoon's meeting of the Public Accounts Committee. Can I also welcome Gillian Body, assistant auditor general, to the Public Accounts Committee meeting in place of Huw Vaughan Thomas, who is unavailable this afternoon? Headsets are available in the room for translation and sound amplification. Can Members please turn off any electronic devices and ensure phones are on silent? In the event of an emergency an alarm will sound; please follow the ushers. Apologies have been received today from Neil Hamilton. We have no substitute.

[2] Can I advise Members that I will be inviting declarations of registerable interests at the beginning of the meeting, but that relevant interests should be declared during the items to which they relate? Is that understood? Lee.

[3] **Lee Waters:** I have a declaration for item 4. Should I make that now or should I make that at the time?

[4] **Nick Ramsay:** Yes, make it now.

[5] **Lee Waters:** I have worked with and am a friend of Roger Lewis, the chair of Cardiff Airport.

[6] **Nick Ramsay:** Okay. Neil.

[7] **Neil McEvoy:** I used to be a director—it may be relevant to grants, I'm not sure, but I'll say it anyway—of a company that did have quite a bit of contact with the Welsh Government in terms of applying for grants. I'm no longer a director, but I'm a shareholder. I don't think they'll be submitting any further applications in future.

[8] **Nick Ramsay:** Thank you. Those registrations of interest will be noted.

14:02

**Papurau i'w Nodi
Papers to Note**

[9] **Nick Ramsay:** Item 2: minutes from the meeting held on 7 November. Are Members happy to agree the minutes? Yes. The minutes are passed.

**Llywodraeth Cymru yn Ariannu Kancoat Ltd: Sesiwn Dystiolaeth gyda
Llywodraeth Cymru
The Welsh Government's Funding of Kancoat Ltd: Evidence Session
with the Welsh Government**

[10] **Nick Ramsay:** Item 3: the Welsh Government's funding of Kancoat Ltd. We have today an evidence session with the Welsh Government. Can I welcome the Welsh Government officials to our meeting this afternoon? Would you like to give your names and positions for the Record of Proceedings?

[11] **Mr Jones:** Good afternoon, everyone. My name's Simon Jones. I am the director of infrastructure, so that's transport and ICT infrastructure. I'm also the additional accounting officer for both those areas.

[12] **Mr McGuire:** Good afternoon everybody. My name's Mick McGuire. I'm director of sectors and business and I've been the additional accounting officer for sectors and business and grant support since the first quarter of

2013.

[13] **Mr Price:** I'm deputy permanent secretary for the economy, skills and natural resources group. So, I'm ultimately responsible for all of the work we're talking about today.

[14] **Nick Ramsay:** Thank you. Thank you for being with us today. If I kick off with the questioning, the first couple of questions we'd like to ask you involve the involvement of the then Minister for Economy, Science and Transport in the decisions to provide assistance to Kancoat. Other than considering and acting on the advice provided in the ministerial advice folders, did the former Minister for Economy, Science and Transport have any other involvement in the consideration of the proposals put forward by Kancoat Ltd?

[15] **Mr Price:** I may need to bring Mick in on this point, but in doing quite significant preparation for this committee I have checked all of our paperwork, and we've also checked ministerial engagements and visits, and I'm not aware of any involvement beyond the consideration of the paperwork that was sent up by the teams, which was quite extensive because there were a number of different iterations of it.

[16] **Nick Ramsay:** Did the former Minister exercise any undue influence on Welsh Government officials to ensure that Kancoat Ltd received financial and property support, given that officials had highlighted the proposals as inherently high risk?

[17] **Mr Price:** Okay. So, again, this is an area I think I'm able to answer. Having considered the evidence and talked to the teams involved, I don't believe there was any undue influence, no.

[18] **Nick Ramsay:** You said in the last answer that you weren't aware, and you said in that answer that you don't believe; are you 100 per cent certain?

[19] **Mr Price:** There are around 700 people in the economy and infrastructure bit of the group that I now lead, so it's impossible for me to say with absolute certainty the answer to anything. In fact, when I advise Ministers, I always say, 'I have been advised by officials', because I think that's the most honest answer. But I have gone through the paperwork and I do not believe that there was any undue influence. And I'd go further still to say that our processes and procedures would not allow for any undue

influence to be able to have any impact in any event.

[20] **Nick Ramsay:** Okay. Turning to the former Minister's position in respect of the ministerial code, which has been publicised, was any consideration given by officials at the time that there might be a conflict of interest, or, if not a conflict of interest, a perception of a conflict of interest, given the relationship with the Minister's constituency—a neighbouring constituency?

[21] **Mr Price:** I'll just try to set the ministerial code in some kind of context for the committee. The committee is probably well aware of this anyway, but the ministerial code is there to inform and enforce the behaviour of Ministers. The civil service also has something called the civil service code, which is here to inform and enforce the behaviour of civil servants. The ministerial code ultimately finds its way to the First Minister, in terms of the person who enforces it; the civil service code ultimately finds its way to the Permanent Secretary and then the Cabinet Secretary, in terms of the UK civil service. Having said all of that, as officials, we don't ignore the ministerial code, and the custom and practice within the Welsh Government in terms of constituency areas is: if an activity, or in this case an investment, was to take place in a Minister's constituency, then it would be deemed a reasonable conflict or perception of conflict might exist, in which case advice would be sought. Sometimes we might talk to Peter Greening, who is the Cabinet Secretary, and oftentimes, that will end up being referred to the First Minister, who will then either consider it himself or will reference it to another Minister to take the decision. In this instance, because the investment was outside the Minister's constituency area, that process wasn't adopted because there was deemed not to be a conflict of interest.

[22] **Nick Ramsay:** Do you think this is a blurry area, as far as the ministerial code—that this has exposed the blurry area of the code? Because, of course, as you say, it wasn't the Minister's constituency, but being the neighbouring constituency and where constituents would work, there could be that perception of a conflict. But maybe this hasn't arisen before.

[23] **Mr Price:** I can certainly understand where you're coming from, but equally, I don't think there was any blurring of understanding in this case, because the test was simply: is it in the constituency area, or not? This is a matter for Ministers, rather than officials, so I don't want to get too drawn on this, but what I would say is, if we started to try to get into those areas of grey, how do you define when something is a conflict and when something

isn't a conflict, particularly with the travel-to-work areas that we have in Wales? You could be locking out most Assembly Members, for instance, in south-east Wales from any investment anywhere in south-east Wales, if we were to adopt a different approach to it, and I suspect we'd get ourselves into more difficulty. But I can understand what motivates the question.

[24] **Nick Ramsay:** So, at the time that the decision was—. Well, I assume that consideration was given to the ministerial code at the outset of the process and it was decided that it didn't breach the ministerial code. It was outside of the constituency, so it wasn't an issue.

[25] **Mr Price:** Yes. I mean, to be very honest, I imagine that the teams involved wouldn't have even necessarily realised they were dealing with the ministerial code, but what you will actively see, if you go to look at people's desks who are responsible for sending these pieces of paper up, quite a lot of people have got constituency boundaries on a map in front of their desk and they routinely check that as part of what they do. In fact, if that was the case, then it wouldn't even be submitted to the Minister, so they wouldn't even, or shouldn't even, in my view, see it.

[26] **Nick Ramsay:** Okay; thanks. The next question is from Mike Hedges.

[27] **Mike Hedges:** The first question is a fairly straightforward one. This was funded under the advanced materials and manufacturing sector. Is that meant to be singular? Is it 'advanced materials and manufacturing' as one sector?

[28] **Mr Price:** Yes, it is.

[29] **Mike Hedges:** How does colour coating steel and aluminium count as the advanced materials and manufacturing sector? How does this fit into that? As you know, Bryngwyn used to do it with steel. It closed. I'm not sure that Tafarnaubach is still open or not; you can probably tell me. Shotton still does it with steel. But this has been done for decades—colour coating aluminium and steel; mainly steel, because again, as you probably know, aluminium forms a thin alumina oxide which means it's impermeable and doesn't rust, and therefore colour coating is for vision only, not for protection. Can I declare an interest in that I used to work in the aluminium and the steel industry?

[30] **Nick Ramsay:** I think we worked that out. [*Laughter.*]

[31] **Mr Price:** You've got me in a dangerous place there; you know far more about the technicalities of this than I will. However, just, again, to try and put this into context, where those sectors came from was economic renewal policy that was done at the back end of the term before last. So, that would have been 2009 or 2010. It was probably really informed in 2009, which was before the credit crunch. There was an attempt then to do two things: to focus down economic support for economic development—significantly focus it down on areas of higher added value or areas of strategic added value. That was the first thing. The second thing was to try and move to a position of financing that was more repayable, rather than the grants that we'd had in the past.

[32] When the financial crisis hit, there was a review of what was in sectors and what wasn't in sectors, and I think it's fair to say that the boundary of a number of sectors was widened quite significantly to include a wider definition. So, some people would say that that type of basic metal processing shouldn't be advanced materials. Other people at the time would have argued, 'Yes, it should'. And probably, the reasons that would have been put forward for why it should—I don't know; I'd have to check the record—would have been down to the kit that was being used, the capital-intensive nature of the activity, and so on.

[33] **Mike Hedges:** I think it would be very useful to have that information, because I find it incredibly difficult to understand how putting paint or colour coating onto steel and aluminium counts as advanced materials.

[34] **Mr Price:** If I can, just on that point, I will bring in Mick, because what I'm not sure of is whether it was that team that dealt with it, or whether it was deemed to be advanced manufacturing or not.

[35] **Mike Hedges:** It's advanced materials and manufacturing; you already said it was one sector. It wasn't 'advanced manufacturing' or 'advanced materials'—it was 'advanced materials and manufacturing'. You've already said that on the record.

[36] **Mr Price:** The question I'm asking Mick, though, is whether it was deemed to be within the sector as defined, or whether it was dealt with by that sector team, because that sector team was the closest to do it. You might not know either, Mick.

[37] **Mr McGuire:** Well, it is the advanced materials and manufacturing sector. You could read it two ways: you could say it's advanced materials, and manufacturing, or you could read it the way in which you're interpreting it. The point I would make—and the Minister was very clear on this—when she arrived in her term of office, she was very clear that we were an economy in recession, unemployment was very high and there was significant failure in terms of the banking sector's capitalisation following the credit crunch. And the Minister was very strong to say that the manufacturing industry was in difficulty, and she asked her officials to engage with businesses right across each of the sectors with a view to offering support, not just to create new jobs in exciting new sectors, but also to safeguard and assist jobs in existing sectors.

[38] **Mike Hedges:** Sorry, I don't think it can be read two ways. The 'and' with only one sector means that it's part of one sector. I don't think it can be read as 'advanced materials sector and manufacturing sector', because if that were the case, it would have 'sector' after 'advanced materials'. Once you put the 'and' there—I look to you; you know more about the English language than I do, Nick—but when you put the 'and' there—

[39] **Nick Ramsay:** You clearly know more about aluminium coating than I do, and we can't expect our witnesses—[*Inaudible.*]

[40] **Mike Hedges:** When you put the 'and' there, you're joining the two. Anyway, that's—

14:15

[41] **Mr Price:** We will provide a note, absolutely.

[42] **Nick Ramsay:** Yes, could you get back to us on the exact reasons for that allocation?

[43] **Mr Price:** Yes.

[44] **Mike Hedges:** This is a site that has not succeeded. Can I talk about the aluminium industry in south Wales, which has collapsed? There's a whole range of companies that did aluminium, of very different kinds, from Alcan to the Bridge Aluminium company, and a number of the factories they had there, to the Aluminium Company of America, which was on this site. Now, that had actually collapsed over a period of time due to high energy costs.

So, why did people think that you could do something on this site, with what we've seen with the aluminium industry in south Wales, and when we've seen the number of people who've been unable to get this to work, including the Aluminium Company of America, previously?

[45] **Mr Price:** I think that's a very fair question to ask, and one that I've asked myself and asked the team as part of preparing for this committee. And I think there are two, probably three, things I'd like to say to that. The first is that the investment panel and the sector team were very clearly aware of the previous failures at that site, if you want to put it that way. The sector team and the investment panel were also aware of the risks involved in taking that forward. But every business is treated as a business in and of its own right, and the business plan is looked at independently from previous businesses. And, on balance, from what I can see of the notes—and there are significant notes; there's 1,000 pages of them, which we've sort of trawled through—the investment panel was convinced that this had a reasonable chance of being successful.

[46] What I would say in answer is that simply because something has failed before doesn't always mean that it's going to fail again, and a very topical example of that, I think, would be the Tata situation, where, previously, Tata Steel had been in really dire circumstances. They're still in significantly poor circumstances, but, as a result of management attention by Tata India, they have significantly reduced their losses, and we believe there's potential to turn that site around. So, it isn't always the case, simply because something's failed before, even with things like energy-intensive industries, that it could never succeed again.

[47] **Mike Hedges:** That's a very interesting answer. The comparison with Tata Steel and its position I don't think is one that bears any resemblance to what we're talking about here. We're talking about small manufacturing, which is going to be in competition with, I assume, Shotton and the colour coating up there, and other colour coating across Britain. It's a small manufacturing scale. Large-scale steelworks either make big money or lose big money, depending on a whole range of things, and we haven't got time to discuss the steel industry now, but I don't think it's a very good comparison.

[48] **Mr Price:** Maybe it's not a very good comparison. I wasn't trying to make a technical comparison, I was simply trying to say—. In this case, the investment panel were proved wrong. But I'm simply saying, simply because

something has failed once, or even twice, doesn't mean that we won't consider it as an investment.

[49] **Mike Hedges:** It's not just that it's failed once or twice though, is it? And I'll finish on this. We've seen the collapse of the colour coating industry—Bryngwyn, which was about two miles, or three miles, away from that, which was a major colour coating company for steel—that closed. You'll probably tell me whether Tafarnaubach is still open or not in Ebbw Vale, or the Ebbw Valley, but those were the two colour coating steel companies in south Wales, and I understand that a substantial amount of work is done in Shotton in terms of colour coating. But the position is that colour coating is not advanced manufacturing. I'd like to see, if you can provide the information, how somebody deemed it advanced manufacturing—

[50] **Nick Ramsay:** I think we're going back over old ground there.

[51] **Mike Hedges:** I know, but perhaps—. I'll finish on this. Perhaps you can give us a note on why somebody deemed it advanced manufacturing. And the final question really is: you said it had failed twice. Somebody believed it would be a success. Perhaps you could give us a note on how somebody came to a conclusion that I don't think any reasonable person could have come to.

[52] **Mr Price:** Okay. So, absolutely, we will provide the note. It might be worth while touching, because Mick is here, on how an investment panel process works, and how someone may have come to that conclusion—a team, I think, rather than 'someone', coming to that conclusion. I think that is worth doing, Mick, if I can bring you in, if that's okay, Chair.

[53] **Mr McGuire:** Yes, I'm happy to do so. In terms of applications that come in front of the investment panel, two of the primary things to consider are: how good is the business plan and then how experienced are the management team in terms of their capability to deliver that business plan? I have to say that business plans are written on paper and they're delivered in the real world, and no business plan I have ever seen survives its first contact with customers and with competitors. So, businesses will face challenges. The company's ability to manage the issues that are unforeseen in a business plan determines whether or not the business thrives and succeeds or not. As you rightly say, and you readily recognise, the steel industry has gone through a very traumatic time. So, a business plan on paper that looked credible and achievable and was considered so by the members of the

investment panel actually came across major issues, particularly in terms of huge fluctuations in the value and the availability and the cost of steel. The business subsequently failed because the company's ability to manage the unforeseen issues and fluctuations wasn't sufficient to keep it safe.

[54] **Nick Ramsay:** Rhianon Passmore.

[55] **Rhianon Passmore:** So, in regard to the reasoning behind the credibility of the business planning, the team behind the investment panel, to summarise what you say, was of the impression that this had a reasonable chance of success, but it wasn't rigorous enough to weather the external turbulence within the industry. Is that what you're saying? Because obviously we're dealing with public money and hindsight's a fantastic thing.

[56] **Mr Price:** I don't want to take words out of Mick's—. I'll let Mick answer that question in a second, but, having spent quite a few hours going through this with Mick, my understanding is that the paperwork that was presented by the company was assessed and analysed by the investment panel and by the sector team, who concluded that, on balance, it had a reasonable chance of success.

[57] **Rhianon Passmore:** But on what balance, Chair? Can you explain a little bit more about those criteria?

[58] **Mr Price:** In which case, I—. A really good question. I think we need to take a step back and look at business finance for the Welsh Government as a whole, if that's okay, before we come back in. So, over the last five-year period of the Welsh Government—so, not this term of Government, but the previous term of Government—we supported just shy of 150,000 jobs; I think, in fact, 146,000—I can't remember the 'hundreds' part, but 146,000-odd jobs. The failure rate of our business finance was around 3.8 per cent. So, I think we advanced just over 1,100 offers, of which 38 failed. That would make it about a 3.4 per cent failure rate, actually.

[59] **Rhianon Passmore:** You're talking generically, now, rather than—

[60] **Mr Price:** No, no, the value is marginally below 3.4 per cent.

[61] **Rhianon Passmore:** Okay, so are you talking in terms of the £166 million or are you talking about numbers in terms of businesses that you supported?

[62] **Mr Price:** Both. So, I'm talking about company numbers here. Mid 3 per cent failed over the last five-year period of Government.

[63] **Rhianon Passmore:** So, are they the multi-million-pound ones that have failed or—

[64] **Mr Price:** No, the figures that I have seen—and we can provide a note on this—suggest, actually, that the value is marginally below the number.

[65] **Rhianon Passmore:** Okay. I'd like more information on that then.

[66] **Mr Price:** So, that's just trying to set a bit of context in terms of how the investment portfolio as a whole has performed. Now I think—and I might regret this in a different committee—if I was sat in front of a different committee, I might be challenged to say, 'Have we taken enough risks?', not, 'Have we taken too many risks?', as the failure rate for businesses as a whole for the UK stands at around about 9 per cent. If we're meant to be the lender of last resort, i.e., taking more risk than anyone else is prepared to take, which is the rationale for Government intervention, then you could say that the failure rate is too low, not too high. That is not defending the decisions taken in this particular instance, I have to be clear.

[67] So, the way the panel tries to look at things—and I don't regularly attend panel meetings, but the way it tries to look at things is trying to ensure that we've got a reasonably risk-balanced portfolio of activities. We're looking at that regularly. If anything, I think that, on aggregate, our risk profile isn't—we're not taking enough risk, rather than we're taking too many risks, but, within there, we may find some decisions that we don't like.

[68] **Rhianon Passmore:** So, to go back to my question, in terms of the criteria and the fact that this had a reasonable chance of success, I'm still not really very clear at all in terms of why that is the case, because it's based upon a business plan and a sound team, I would have thought.

[69] **Mr Price:** Yes. Sorry, that is the reason. So, that would have been the test. Now, the due diligence officer in this instance, as the Wales Audit Office report itself says, had significant concerns about the quality of—well, not the quality, the viability, of the business. That, having again checked this, is not unusual, and it's important for the committee to understand that. So, it is not unusual for a due diligence officer to raise significant concerns and for us to

still put money in. What would be improper is if those serious concerns were not raised and not discussed at investment panel. So, what will happen is that someone at an investment panel might deal with those serious concerns and say, 'Well, I don't think those are serious concerns, because of A, B and C', or might say that those serious concerns have got to be offset against a potential significant opportunity.

[70] **Rhianon Passmore:** And if I may, then, in terms of the due diligence officer's concerns, how were those concerns mitigated?

[71] **Mr Price:** Mick, can you talk to that in any detail, or—?

[72] **Mr McGuire:** I can. Again, as James says, the various applications and submissions that are contained here contain a series of risk assessments in which, actually, the panel and officials consider and assess the risk to the business. And you're absolutely right: the risks to business are many and varied, including products and customers and their ability to manage those risks. I think it is important to understand that—and the due diligence officer said this was a high-risk application—all start-up companies are high-risk applications. James quoted some numbers for business failure rates appropriate to the UK. The business failure rate for start-up companies is significantly higher, and most start-up companies do not survive to reach their fifth birthday. However, every company, at one stage in its life, is a start-up company, and if Government or banks didn't support start-up companies, we would never have had Google or Apple. But, more relevantly here in Wales, we wouldn't have had Admiral if Government hadn't supported a start-up company when it came to Cardiff.

[73] **Rhianon Passmore:** But, with great respect, they're very different industries and at a different time. So, I'm still not understanding the mitigation, so I don't know whether we can get more information sent to the committee around that.

[74] **Mr McGuire:** We can share the risk assessments that are within the submissions and—

[75] **Nick Ramsay:** I'm just trying to get my head around how the meeting that you were talking about would work. So, if an issue is raised on the question of diligence, and this is a high-risk venture, is it the norm, then, that that is just an opinion and that, if there is an argument against that, saying, 'No, we're going to put money into this', then that would win the

day? I think most of the public would think that if there was a really serious question raised about diligence, then that would take priority.

[76] **Mr Price:** Okay. So, I'll talk a bit to this and maybe bring Mick in. In terms of the investment panel meetings—and I think I've only been to two or three, and they're held weekly, but the investment panel meetings would feel kind of much like this meeting, actually, in that the sector team lead would be the equivalent of me, and we would be having a discussion or a debate or, sometimes, maybe even a heated argument. The sector team lead would be advocating their position and the reasons why. Other people, with different expertise around the table, would be challenging that.

[77] In terms of whether it's okay to override a due diligence officer, I kind of think it is in the round, provided that you've taken due account of what they said. So, we can't bring WAO into this now, but WAO's position always is, 'We need to be very clear about the risks that we're taking and why we're taking them'. So, in that instance, the due diligence officer would be setting out what the risks were; the investment panel would be describing why they were prepared to take those risks and what mitigating actions they were going to take. Now, there will be some instances where the feelings of the due diligence officer are so strong that it will not be done. There will equally be some instances where, on the back of that, we will go back and have a look again, and I could well imagine some of the—I don't want to mention any particular company names now, but some of the big things that there would be public clamour for us to support, in the first instance, the due diligence officer will say, 'That's a really bad idea. You shouldn't do this. This will be a really significant risk for all these reasons—'. And it may be that that goes around several times before those risks are mitigated.

14:30

[78] **Nick Ramsay:** Even if that opinion was expressed that could still be overturned at the panel meeting on the basis that there were reasons for taking that risk?

[79] **Mr Price:** I'll bring Mick in again, but due diligence is one lens through which investments are looked at and the due diligence officer is instructed to look for problems rather than look for good things.

[80] **Mr McGuire:** I'm happy to come in and it probably helps to put it into a little bit of context. This application started with the sector talking to a

potential start-up company in 2011. In April 2012, the company brought a request for, I think, £3 million-worth of repayable business finance, and officials said, 'That is not going to represent good value for money and the business case isn't good enough.' They reduced that then to a £1.8 million application, which was considered by an investment panel as being poor value for money and the business case wasn't good enough, and it was rejected and the Minister accepted the rejection without comment. They then came back—and that would be about another three months later—with additional information—and this would be true of a lot of projects—where they'd then improved the business case: 'If we haven't got the experience, if we haven't got enough senior management expertise, if we haven't got enough evidence of customers, if we haven't got enough evidence of private finance coming in to the party, we'll go away and explore whether we can improve that aspect of the business plan and come back and bring in a different piece of work.' So, the actual investment panel meeting, where the due diligence officer will attend and the due diligence officer will present his or her papers in advance to the panel, will discuss their findings and why they feel it. The debate is then generally with the heads of sectors—around the, sort of, nine sectors around Welsh Government—or senior officials within each of the sector teams, which will then lead to say, 'How would we answer that and how would we understand that issue or that question?' And there will be a debate which will be minuted and recorded and that will be part of the advice that will go forward to the Minister in any advice note either to reject or to accept the case, notwithstanding that the risk had been or could be mitigated.

[81] **Nick Ramsay:** Lee Waters, did you have a supplementary?

[82] **Lee Waters:** Yes. Just to try and summarise my understanding of your position: this was a difficult time with a company that was struggling and the prevailing ministerial direction was to do your best to try and help firms stay in business. This was a marginal judgment, but in the best judgment of the committee it was felt it was worth a go. Clearly, it didn't work out that way, but the rate of failure more generally by this approach is a lot less than the overall failure in the economy we'd see naturally. In terms of the lessons learnt note that you provided to the committee at the end of August, the lessons learnt from the auditor general's report were primarily process lessons, is that right? It's a streamlining process. These are bureaucratic lessons. So, in your judgment, with the benefit of hindsight, you don't think you'd do anything significantly different now if this case was to come before you again?

[83] **Mr Price:** Can I take that one? So, yes, they are process lessons learnt—process is really important, actually. Maybe I could say something—. If I'm going to get a headline I'd rather get a headline for this than anything else.

[84] **Lee Waters:** I wasn't using it in a pejorative—

[85] **Mr Price:** I was just thinking whether this was going to come out wrong or not. People often criticise bureaucracy. Bureaucracy, when it works—

[86] **Lee Waters:** I wasn't doing that, I'm just trying to—

[87] **Mr Price:** No, no, I know that. But when bureaucracy works effectively, which is the efficient operation of a complex system, then it's really important, and that's why process improvements are actually really important. So, if I was to pick out two process improvements in here, which are really important, they would be the fact that there is now a proper—a vastly improved—process around the way we give out loans. You've got to remember that this was the first loan that had been given out, and, secondly, that all decisions relating to a particular company will be taken by the same set of people in one place at the same time. I've asked the people involved and said, 'If we had made those changes and we were in the economic climate that we were in at the time, do you think you still would have taken the same decision?' That's an easy question to ask, a difficult question to answer. But the answer that I've got from Mick and his team is that they still believe we would've taken that decision. However, I would have been much more satisfied if that decision had been taken with those process improvements behind it. On the whole, I think those process improvements would allow us, and will allow us, to run a better system in terms of an investment portfolio of products.

[88] **Lee Waters:** But it wouldn't have changed the outcome.

[89] **Mr Price:** That was the conclusion that—

[90] **Mr McGuire:** It's an impossible question to ask. It may not have. It's an impossible question to answer. If there hadn't been a pause, or if there had been another group of people looking at it from a different perspective—you can't prejudge what they would think. It was considered according to the

process that existed at the time. We believe we've refined and improved the process, therefore I suspect there would be more rigour going forward with a new process, but it's impossible to call what that decision might've been. But the people who considered and made the decisions felt that there was a reasonable prospect that this business, with the business plan and the expertise of the management team available, could have succeeded.

[91] **Lee Waters:** Okay, thank you.

[92] **Nick Ramsay:** Rhianon Passmore.

[93] **Rhianon Passmore:** Thank you. The commercial loans are now forming part of the financial approval process now. Can you explain to me, moving on from that, what exactly—because I'm struggling with this—non-repayable repayable business finance means? How does that, then, differ from a direct grant?

[94] **Mr Price:** I think this is all very unfortunate wording—that's the first thing. [*Laughter.*]

[95] **Rhianon Passmore:** Semantics.

[96] **Mr Price:** I, personally, have tried to change that on several occasions, and I believe it will be changed. It's actually very simple: repayable business finance is a grant that you have to pay back, typically without interest. Non-repayable repayable business finance is a grant.

[97] **Rhianon Passmore:** Okay, so an oxymoron of a question and answer. How has that changed?

[98] **Mr Price:** Since?

[99] **Rhianon Passmore:** Has it changed? Do we now use that terminology?

[100] **Mr Price:** No, that is still the case. So, we're still operating—

[101] **Rhianon Passmore:** When are we changing that and why haven't we changed that yet?

[102] **Nick Ramsay:** So, non-repayable repayable business finance—

[103] **Mr Price:** It's a grant.

[104] **Nick Ramsay:** —is a grant that is not paid back or doesn't have to be paid back.

[105] **Mr Price:** Yes, and repayable business finance is a grant that, typically, would be paid back.

[106] **Nick Ramsay:** Having the word 'repayable' in the middle of it does confuse things.

[107] **Mr Price:** Yes, I agree. If I can take people—. I'm not a big advocate of the terms or words that are used here, but I'm not the only person involved in setting out what the terms or words are. This came from economic renewal policy before the last Assembly term. The reason for this—I think I talked a bit to this earlier—was that there was a push towards making finance repayable, rather than grants, because, before the financial crash—the last financial crash—there was a belief that we were putting too much money out in grants and the economy was performing pretty well.

[108] When the policy was rolled out in the period of the financial crash, it was concluded that that didn't work, so it was amended. It was amended in a time-limited way, because people always thought that we would go back to try and offer non-repayable finance. But, in the view of the decision makers, which would be the politicians—and I think they're right—we haven't yet reached a time when the economy is good enough to remove grants from the system. There are a couple of things that have made this worse, including the establishment of the LEPs—local enterprise partnerships—in England, which weren't around at the time when the policy was introduced and now offer grants themselves. We have to be competitive with the rest of the UK.

[109] If we were simply to go back to grants, that would mean having a new policy, i.e. ripping up economic renewal policy that wasn't deemed to be effective at the time. We're looking at that now in the context of the programme for government and the four key areas of Government activity. So, my guess is that this will be reviewed anew over the next few months.

[110] But the terminology is—. We need to just put the terminology to one side. We're talking about grants that are repaid or grants that aren't repaid.

[111] **Rhianon Passmore:** Okay. I've got a further question, Chair. How does

the Welsh Government, then, ensure that there's a fair and transparent means of determining whether the repayable business finance is provided?

[112] **Mr Price:** Okay, so whether you have to pay money back or not—yes?

[113] **Rhianon Passmore:** Yes. How is that process deemed to be—?

[114] **Mr Price:** There are two ways that that is done. The first is, if you go back to the economic renewal policy in 2009, that had an exemption in it already for—and it was quite politically contentious at the time—mobile projects. The reason for that was if you're trying to get inward investment in from another part of the world and other parts of Europe are offering grants and we didn't, then we would be immediately uncompetitive. That also was deemed to apply if there was a business in Wales that could take their business abroad and get a grant somewhere else, because we didn't want to be encouraging businesses to offshore.

[115] There was then a further category that was on an exceptional basis. Now, when the credit crunch happened, Ministers signed off a series of exceptional bases, which was the Welsh economic growth fund, if anyone can remember that so-called WEGF. I think there were three rounds of WEGF, which delivered grant to a significant number of smaller businesses. That was all signed off as an exceptional basis, so it simply went out as grant, and then every business is told what the rules are and that they can make a case on an exceptional basis for it to be non-repayable. The test for us being that we need to provide the minimum necessary for a project to go ahead, and so the investment panel or the Welsh Industrial Development Advisory Board will scrutinise the project to test whether that is the case.

[116] **Rhianon Passmore:** This might be a stupid question, but who scrutinises the work of the investment panel?

[117] **Mr Price:** No, that's not a stupid question at all. It's a really good question, and the answer to that would be—. Well, Mick scrutinises it, but is also on it, internal audit will scrutinise it, Wales Audit Office is scrutinising it and, to a certain extent, you are scrutinising it now.

[118] **Rhianon Passmore:** I realise that, yes.

[119] **Mr McGuire:** And legal and state aid compliance—

[120] **Mr Price:** Yes. So, it has to be deemed legal and state aid compliant, but they're not really scrutinising it, I wouldn't say; they scrutinise the setting up of the process. It is through this type of process where we have polls and reviews and external scrutiny, I would say.

[121] **Rhianon Passmore:** And—

[122] **Mr McGuire:** Sorry. The scrutiny would be by the different heads of the sectors who sit on the panel. So, their challenge is to actually provide the scrutiny. So, if this was an advanced materials and manufacturing sector case, which it was, the head of sector would've recommended it to the panel for approval with the background paper, but would've stepped back from being able to comment or vote on whether or not the grant should be given, and it would be the other heads of sector who would sit on the panel, who would then consider, in the round, the evidence and the information and make a decision.

[123] **Rhianon Passmore:** Okay, because it would be difficult to scrutinise this particular situation without understanding what the mitigations are that were built in after due diligence and have not been able to—

[124] **Mr Price:** Yes. So, no-one—and this is not meant to sound like a bad point—we do not scrutinise separate investments after they go to investment panel, because investment panel is the place where they're scrutinised. I think that's right and proper, in the same way that no-one is scrutinising the work of WIDAB—well, the individual cases. Their work will be evaluated as a whole.

[125] Simon just pointed out to me that bigger cases of investment of loans over £1 million, or things that don't naturally fall into investment panel or WIDAB, also go to corporate leadership team meetings for the economy and infrastructure portfolio. So, that would be the directors of the department, normally excluding me, but I attend once a month, who will also scrutinise, if it's above £1 million.

[126] **Nick Ramsay:** Neil McEvoy.

[127] **Neil McEvoy:** A quick one, just to go back to what you said at the beginning, really: you said that you're not aware of any further influence from the Minister. So, you're unable to state that there was no further influence from the Minister.

[128] **Mr Price:** I cannot categorically say that the Minister didn't speak to any staff member about it. If she did, I don't think that would be improper. In fact, I think it's—

[129] **Neil McEvoy:** Can I stop you there?

[130] **Mr Price:** Yes.

[131] **Neil McEvoy:** You said that if she did, you wouldn't think it was improper, well, how would you know if you don't know what the conversation was?

[132] **Mr Price:** Well, staff members understand the civil service code and they can raise anything that they don't like with directors or with me, and no-one has raised anything with directors or with me. There's also a whistleblowing policy and nothing has come up through the system.

[133] **Neil McEvoy:** Okay. In terms of the lease, was David Goldstone involved as the adviser to the Minister—the unpaid adviser?

14:45

[134] **Mr McGuire:** No.

[135] **Mr Price:** I don't believe so, no.

[136] **Neil McEvoy:** So, he advised on property—he was the Minister's unpaid adviser on property, but he had—. So, you can categorically say that he had absolutely nothing to do with it.

[137] **Mr McGuire:** No, that's not the case. He was an adviser to officials on property transactions, as and when required. He wasn't required upon this property transaction.

[138] **Neil McEvoy:** But he was an adviser to the Minister, wasn't he?

[139] **Mr McGuire:** No, he was an adviser to officials and provided advice to officials on—

[140] **Mr Price:** He went through two iterations, I think, Mick. So, in the first

instance, which may have been at the time of the original grant investment, he would have been an adviser to the Minister, and then, probably around 2012—this was shortly after I took over the portfolio—we repositioned him as an adviser to officials, rather than an adviser to the Minister.

[141] **Neil McEvoy:** I probably saw an older business card before 2012 then, which said that he was an unpaid adviser to the Minister.

[142] **Mr McGuire:** That wasn't a formal business card; that wasn't approved by officials.

[143] **Mr Price:** Well, he was an adviser to the Minister and then he became an adviser to us. He had also been an adviser to the Minister previously in the health portfolio—

[144] **Neil McEvoy:** Yes, I understand that. He followed the Minister around. I'm just really concerned that, between the two of you, you're not aware of the status of somebody who, I'm told, played quite a crucial part—

[145] **Mr Price.** I am fully aware of it and, to be fair, Mick didn't take up his role until the second half of this.

[146] **Neil McEvoy:** Well, Mick, do you not think that maybe you shouldn't have answered the question, then?

[147] **Mr McGuire:** I answered the question from my experience as director, and answered honestly and truthfully.

[148] **Neil McEvoy:** I'm not questioning that, but—

[149] **Mr McGuire:** Going on 2013—

[150] **Neil McEvoy:** But you're obviously wrong.

[151] **Mr Price:** No, Mick is right in the sense of how he was asked it.

[152] **Neil McEvoy:** No, you're obviously wrong—

[153] **Nick Ramsay:** To be fair, if a question is asked to witness, then you will anticipate an answer.

[154] **Neil McEvoy:** Okay, let's make progress, because—

[155] **Mr Price:** There is a very clear answer to it, though. He was an adviser to the Minister and he became an adviser to—

[156] **Neil McEvoy:** So, he wasn't involved in this, you say. So, there's £3.4 million of public money and if we look through the paperwork, Finance Wales rejected the application on the basis of poor value for money. That was the first one. There was no curriculum vitae for Kancoat's managing director, there were concerns about Kancoat's financial projections, and Kancoat said they couldn't repay a loan, so it was given as a non-repayable loan. Well, I would have thought that maybe some flags would have been raised there, if they said they weren't in a position to repay a loan. The business plan was weak and inconsistent. There was no up-to-date valuation on machinery—that echoes with me with the Pontypridd land deal, the shop deal, where there was no valuation there either. So, I suppose my question really is: how do you justify to the public the expenditure of £3.4 million of public money on the basis of what I've just said?

[157] **Mr Price:** There are quite a lot of points you just made in that, which I haven't got all of them—

[158] **Neil McEvoy:** I'll repeat them—

[159] **Mr Price:** No, we can take them one at a time rather than the long list there.

[160] **Neil McEvoy:** Poor value for money—

[161] **Nick Ramsay:** We have limited time, and I'd appreciate it if we didn't have whole questions repeated.

[162] **Neil McEvoy:** Sorry. No curriculum vitae for the MD, concerns about financial projections, they couldn't repay a repayable loan, the business plan was weak and inconsistent, and there was no up-to-date valuation either on machinery. How on earth could that get £3.4 million-worth of public money? If it was the panel, who are these individuals? Maybe the public would like to know the names.

[163] **Mr Price:** Okay. So, let's try and take them one at a time. So, in terms of the value for money, if the project had been successful, then the value for

money would have been within the criteria at the time, and it would have seen a cost-per-job of around about £22,000 to £23,000.

[164] **Neil McEvoy:** But it was said to be not value for money, which is why Finance Wales ruled it out.

[165] **Mr Price:** If we're talking about value for money with Finance Wales, then, again, we need to take a step back and explore Finance Wales at the time. Finance Wales, at that time, which is at the beginning of the last administration, were operating to a business plan signed off by the previous administration. The previous administration's appetite for risk was significantly lower than the then current administration's appetite for risk, and there was a strategic level debate about Finance Wales and whether Finance Wales were operating as a lender of last resort or not, concluding, I think, in the conclusion of most people, that Finance Wales weren't taking enough risk and hence why there is a move now towards the creation of a development bank for Wales, where they will be more aligned to the Welsh Government's wishes. So, it does not surprise me at all that Finance Wales didn't want to invest in this. At the time, Finance Wales really didn't want to invest in anything that the Welsh Government was doing.

[166] **Neil McEvoy:** So, what about the business plan being weak and inconsistent then?

[167] **Mr Price:** Whose quote is that you're quoting from, sorry? Is that the due diligence officer? I don't recognise those words, that's all.

[168] **Neil McEvoy:** It's a report from the Wales Audit Office.

[169] **Mr Price:** Okay, so this may have been Wales Audit Office's view. I'll bring in Mick anyway.

[170] **Nick Ramsay:** Where have you got that quote from, Neil?

[171] **Mr Price:** It would just be useful for me to know who had said it, that was all.

[172] **Neil McEvoy:** Bear with me. This is,

[173] "The business plan appears weak and inconsistent."

[174] It's page 28, 3.29.

[175] **Mr Price:** Okay, thank you. I think that's the due diligence officer.

[176] **Neil McEvoy:** Yes. So, if the official view is that the business plan appears 'weak and inconsistent', how on earth can it be funded?

[177] **Mr Price:** Right. So, I think we covered this before, but I will bring Mick in. I may not have covered it to everyone's satisfaction, but I think we have covered it in the sense that the due diligence officer, his task, or her task, is to really think about all the problems that the investment might have and bring that to the investment panel for the investment panel to consider. So what you have here is what the due diligence officer said. What you don't have in any detail is what the investment panel did about this. I think Mick might want to come in.

[178] **Mr McGuire:** It is the process I was describing earlier. So, in the absence of a CV, we asked the sector to go and get the evidence of the experience of the senior partners and to share that back with the panel, which was shared. I think there was something like 60 years of experience in coating tinplate, aluminium and steel in the three senior practitioners. In terms of the projections, those projections get reworked, and that's what this pile of 1,000 pages is. The initial projections were weak and unsatisfactory—

[179] **Neil McEvoy:** Okay, just to save time—

[180] **Nick Ramsay:** This is an important area, I agree, but I think we have now heard several answers from the witnesses on the issue of due diligence.

[181] **Neil McEvoy:** Just a final question.

[182] **Nick Ramsay:** Very briefly.

[183] **Neil McEvoy:** Did you refer this matter to fraud prevention?

[184] **Mr Price:** So, I'll take that answer. So, the answer is: it has been looked at, yes, and nothing has been—no matters of any concern have been identified.

[185] **Neil McEvoy:** By fraud prevention.

[186] **Mr Price:** Within the Welsh Government, yes.

[187] **Nick Ramsay:** I want to bring in Mohammad Asghar.

[188] **Mohammad Asghar:** Thank you very much, Chair. I think Lee has already asked a couple of the questions that I was going to ask, but the fact is that Mr James Price earlier said, 'If the project was succeeding'. It's not successful. How was the project going to succeed? That was the point. You had to look when you looked at the business plan. Has the Welsh Government made any strategic plan to mitigate risk when considering financing businesses, particularly when private sector lenders reject the opportunity to lend money?

[189] **Mr Price:** Okay. I think that's another very fair question and one that kind of goes to the heart of the whole issue here, actually, and the heart of the whole issue of Government being involved in economic development. So, the rationale, widely accepted across the economic development world, even if you look at the development of less-developed-countries literature, will say that Government's involvement should be as a lender of last resort. 'A lender of last resort' implies that you should finance things that the private sector won't finance. Financing things that the private sector won't finance implies taking risks that the private sector won't take, which implies things are going to fail.

[190] Now, we can mitigate that as much as we possibly can. We can consider cases on a case-by-case basis, which we do. We can improve our processes through our own endeavours, which Mick and other people across the Welsh Government, and other agencies doing similar work, do on a routine basis, and as a result of external scrutiny, which is very welcome, like this. But, if you are lending to people that the private sector won't lend to, or granting to people that the private sector won't lend to, then almost by definition you are going to have a higher failure rate, and then I think you end up with a high-level policy question: is that something that people want to do at all? And the answer to that would appear to be, looking across the western world, an emphatic 'yes', but I think it's a difficult one, because people like to do it when it goes right, as do I; people don't like to do it when it goes wrong, and neither do I. So, it's what is the right balance in that, and I don't think there's an easy answer.

[191] **Mohammad Asghar:** Thank you for that. My question, now, is basically about the relationship between the Welsh Government and the Kancoat

officials. Can Welsh Government officials provide further details about the relationship between them and the company, and whether there was any pressure being placed either on them or on the Minister during 2012 and 2013 to increase the amount of funding being offered in the first place?

[192] **Mr Price:** Okay. So, I am almost certain that pressure would have been put on officials and possibly on the Minister by the company, and I am equally certain that that is what happens in most instances of companies looking for finance. And frankly, if I was working for a company that was looking for finance, I'd probably do the same thing, as in, I would try to get as much out of the Government as possible, and our job is to assess whether it's worth giving the company anything and to make it the minimum necessary. So, I suspect that the company did; I don't know for sure that the company did, but I suspect they did. It's annoying, if you're working within Government, but I don't think there's anything wrong with it, and our systems and processes do not allow for that to have any influence on staff.

[193] **Mr McGuire:** Just to add to that point, we supported 1,100 businesses during the last term of government, and every single one of them did as James said, they pleaded their own case, and officials had to then apply the standard: do they need Government money to deliver the jobs, is it the minimum necessary, and then does the minimum necessary represent good value for money? That is the process—the threshold—that each project has to get over.

[194] **Nick Ramsay:** The Welsh Government initially said that £500,000 was the maximum amount of finance that it was prepared to provide, because of the high risks involved—we've heard a lot about the risk. That was then increased to £788,000. What was the reasoning behind that increase?

[195] **Mr Price:** I'll bring Mick in on the detail of this, but I believe that the company went away, came back with a set of arguments, as we've just described, actually, saying that the opportunity was greater than we understood, the market was better than we understood and therefore, under the rules, they deserved more finance.

[196] **Nick Ramsay:** And that was all, then, on a non-repayable basis, this secondary amount.

[197] **Mr Price:** That they were applying for, yes. Mick, can you—?

[198] **Mr McGuire:** Yes. They came back in January 2013 with a revised application for £990,000. The rationale was that there were new customer trials, which they did evidence, that they had a significant series of interested customers willing to purchase from them. They wanted to accelerate the customer trials and they needed additional capital to acquire additional kit for cutting and fitting the steel to individual projects. And cookery and kitchenware were one of those products. The panel considered it, and the panel decided that, actually, in terms of value for money, it couldn't recommend more than £788,000, and £788,000 was offered, and £700,000 was ultimately drawn down.

[199] **Nick Ramsay:** Do you think that was the right decision?

[200] **Mr McGuire:** I think it was. I think the panel concluded—it's not an individual decision: the panel concluded—that the business plan, with the level of experience and the customers available to it, had a reasonable prospect of succeeding, and the panel thought that it was a case that could be supported. I think James talked earlier about how many businesses fail, relative to failure rates across the whole of the UK. In my experience, and I've worked for 25 years in lending for Principality Building Society, I've previously been a director of lending, and I've previously set up several new companies, start-up companies, within the building society context, and I think it is appropriate to look at it as a portfolio. There will be failures; you can learn lessons from every failure, but in terms of, 'Is the lever of support one that is providing value for money for the Welsh taxpayer?', it can only really be looked at in the round as a portfolio against alternative economies or normal failure rates within commerce.

15:00

[201] **Nick Ramsay:** Okay. Rhianon Passmore, do you have any more questions?

[202] **Rhianon Passmore:** Thank you. This is a question in regard to the coil coating line. There was advice from the due diligence officer around this, and apparently it was not heeded. And an up-to-date assessment—sorry, asset valuation—obtained in 2013—. Sorry, this was prior to Welsh Government supporting the purchase of the coil coating line. So, how reliable, then, is this reported figure as a result of £1.25 million that was given for the disposal or scrap value of that line, because, obviously, that was a significant element of that?

[203] **Mr Price:** I'll come in on that one. Just speaking personally, when I first looked at all of this—. Actually, for the record, I haven't had a chance to say this, so I should say this: I was at the first investment panel meeting that considered this, so, when the £500,000 was offered, I was at that investment panel meeting. I then had no further personal involvement in this case.

[204] **Nick Ramsay:** So, you were the initial—

[205] **Mr Price:** At the £500,000, yes. And the reason for that was that Mick's predecessor had left and it was before Mick took up the post, so there was a couple of months. I think those were the two or three I went to, and I caught the £500,000. I remember it being quite controversial, that £500,000. When I then reacquainted myself with this, and looked at it after I saw that it was going wrong, that was my first question, actually: 'Did we not get an up-to-date valuation?' So, I agree with the due diligence officer's recommendations, and I agree with the assertion that you've made that we should have had an up-to-date valuation.

[206] The team, if they were here now—the investment panel, if they were here now—would say to you, because they said to me, that they believed there was sufficient headroom in the valuation—which was done by GVA Grimley Ltd, I think, Mick, which is a well-regarded valuation agency, and there was a further valuation done a year later for a set of different people, again to proper standards, which again saw £2 million more than we needed to get back. Now, I still think we should have had an independent valuation, and we will do that as another lesson learned. It's not written here—

[207] **Rhianon Passmore:** Sorry, Chair, just for clarification: so, when you say an 'independent valuation'—

[208] **Mr Price:** For us.

[209] **Rhianon Passmore:** Outside of the—

[210] **Mr Price:** Yes. And the reason why I would want one for me—this is not necessarily a very good—. It doesn't maybe paint me in a very good light, but valuation companies will have public indemnity insurance, but the public indemnity insurance can only be called on by the people whom they're acting for. So, if someone got something very wrong for me and I had paid them to do it, then we could sue their insurance company for it. So, that's the reason

I would want it.

[211] **Rhianon Passmore:** Is that not part of the new refreshed way of looking at these issues by—

[212] **Mr Price:** It is. Yes. So, that wouldn't happen now. As to how good the valuation is, we don't know yet because we're in live negotiations with a few people.

[213] **Rhianon Passmore:** What's likely?

[214] **Mr Price:** I honestly don't know. I think that's something that we'll have to look again at in the future, and there are two things that will determine that. One is the state of the line. So, it has deteriorated slightly from when it was being used. And the second is there was a piecemeal valuation in there in terms of scrap. The price of scrap metal has been all over the place, and this was one thing we discussed last week, actually. My view is that, provided we're not leasing the land any longer, if it had to go for scrap we shouldn't immediately offload it if scrap is very low at the minute, and we should wait until we can get the best value for it. But the lesson has been learned, and we would take an independent valuation.

[215] **Nick Ramsay:** Lee Waters.

[216] **Lee Waters:** Yes, it's just a question on that—about the liability. The auditor's report refers to unquantified remediation costs that the Welsh Government is liable to meet at the appropriate time. So, I just wonder if you could tell us what you know of what they're likely to be and when the appropriate time is likely to occur.

[217] **Mr Price:** I think, but I might have to provide—. I'll provide a note if I'm wrong on this. We'll check the record, and, if I'm wrong, I'll provide a note. I think this will be, primarily, two things. It will be, firstly, if we have to strip out the line and make good, and, secondly, there's a dividing wall, I believe, that was put up within the unit. I've never been to the unit, but I believe there's a dividing wall—a concrete block wall, quite a big concrete block wall—that's been put up. That needs to be taken out and made good. The cost of those things—who knows? I wouldn't think they would cost any more than a couple of hundred thousand pounds. Whether they all need to be done or not will be a big question as to who wants to take on that land. Do they want the coating plant intact or not? Do they want the wall there or not?

So, it's in the dilapidations category.

[218] **Lee Waters:** Has there been any interest in either the line or the premises?

[219] **Mr Price:** There has been. I believe—but I don't want us to go into any names at all, because that would be inappropriate—that we're in discussion with a potential occupier now.

[220] **Mr McGuire:** Negotiations are ongoing and commercially sensitive, but they are live.

[221] **Lee Waters:** Right. But, based on the discussion so far, would we be liable, the Welsh Government be liable, for those remediation costs?

[222] **Mr McGuire:** I can probably best answer that. Because we have the head lease, we have a responsibility to make good any issues left behind at the end of that lease, and there's a break clause in the lease coming up next year. So, Welsh Government would be responsible for making good any issues. It will depend, as James says, on whether somebody comes in to use the site as is, or comes in to do something different with it, as to how much and what those making good costs might be.

[223] **Lee Waters:** Okay. Thank you.

[224] **Nick Ramsay:** Have you finished your questions, Lee?

[225] **Lee Waters:** I believe so.

[226] **Nick Ramsay:** Okay. We are two minutes over now anyway, so can I thank our witnesses for that session? You are, in fact, staying with us for the next round of questions as well, but I propose we have a short comfort break.

[227] **Mr Price:** Chair, is it okay if Mick leaves us now, as it's all infrastructure questions?

[228] **Nick Ramsay:** Yes, that's fine. Thank you for being with us, Mick McGuire.

Gohiriwyd y cyfarfod rhwng 15:08 a 15:13.

The meeting adjourned between 15:08 and 15:13.

**Maes Awyr Caerdydd: Ymateb Llywodraeth Cymru i Adroddiad Pwyllgor
y Pedwerydd Cynulliad
Cardiff Airport: Welsh Government Response to Fourth Assembly
Committee's Report**

[229] **Nick Ramsay:** Welcome back, committee. Item 4 is Cardiff Airport and the Welsh Government response to the fourth Assembly committee's report. The previous committee of that Assembly reported in March 2016, making 10 recommendations, which have all been accepted by the Welsh Government.

[230] Due to the timing of the report's publication and the dissolution of the fourth Assembly, the response was put on hold for the committee to consider. So, we've got a couple of questions for you on this update, deputy permanent secretary. Lee Waters.

[231] **Lee Waters:** Thank you. The original business plan that was used to justify the purchase of the airport had projections of increased passenger numbers of 2 million by the end of 2017-18. The 2015 business plan had reduced that to 1.4 million. Could you tell us what the latest projections are?

[232] **Mr Price:** Yes. Sorry, by what date were you saying?

[233] **Lee Waters:** The end of 2017-18.

[234] **Mr Price:** Okay. So, we are roughly running to profile. In fact, I think we're 0.001 per cent away from where we're meant to be. So, we're pretty much on profile. Simon?

[235] **Lee Waters:** The revised projection, not the original one.

[236] **Mr Jones:** If you're referring to the business plan that was issued for this financial year, the beginning of this financial year, then we are on target to meet those projections.

[237] **Lee Waters:** And that's 1.4 million.

[238] **Mr Jones:** Yes. I think the rolling year at the moment is somewhere

around 1.35 million, so, by the time we get to the end of the year, the anticipation is that the company will hit its target for the year.

[239] **Lee Waters:** And why is that lower than the original projection?

[240] **Mr Jones:** By the 'original projection', you're referring to the one that was done at acquisition.

[241] **Lee Waters:** Yes.

[242] **Mr Jones:** Okay. So, we're probably a year or maybe two years behind the acquisition business plan. There are a variety of reasons for this, which we talked through with the previous committee, I think. It took time to get traction with the airline industry—that's probably the biggest issue. So, doing the deal with Flybe was the catalyst, really, for the growth in the airport, and it took the airport company a bit more time than anticipated to get a carrier that would base aircraft at the facility. But, now they've got that, that's moving forward.

15:15

[243] **Lee Waters:** Okay, and, as a result of those reduced projections, additional finance was required, and that was agreed. Is there any additional financial assistance being considered beyond the previous £23 million loan?

[244] **Mr Price:** If I can just come in on the first point, I don't think it's completely correct to say that, as a result of the reduced projections, finance was—

[245] **Lee Waters:** Well, earnings and income are down.

[246] **Mr Price:** Equally, the way that the business has chosen to go about driving business at the airport—which is to frontload some costs and, in effect, backload some profit—is different from what we originally expected, hence the requirements for borrowings, which get paid off over time. So, a point of detail, maybe, but I don't think it's simply because passenger numbers were down that the borrowing was required.

[247] **Lee Waters:** But the earnings and incomes were down.

[248] **Mr Price:** Earnings/incomes down, but opportunity for investment up,

and they've done both: so, they've invested in the future, and there has been a cash-flow issue, yes.

[249] **Lee Waters:** Okay, but the point is that additional financial assistance has been required.

[250] **Mr Price:** It has been required, yes.

[251] **Lee Waters:** And now I'm asking: is any more required, further to the last £23 million loan?

[252] **Mr Price:** Do you want to answer that?

[253] **Mr Jones:** Yes. So, when evidence was given in this committee in January of this year, that was discussed and, at that time, the need for a further loan was described, and, I think, actually, the WAO referenced it in their report. The terms of that loan have not yet been signed off; it's quite close to being signed off, but there will be an additional loan.

[254] **Lee Waters:** Okay. Do you know when you might be able to tell us what that is?

[255] **Mr Jones:** I think it will be in the next month or two, subject to a final agreement by the Minister.

[256] **Lee Waters:** Okay. Is there any emerging interest from investors in the airport?

[257] **Mr Price:** I'll talk to that, but won't go into too much detail. So, since we bought it—and I think I talked about this when I came to the committee last time on the airport—there has been actually much more interest than I would have thought in the airport. But we have to guard ourselves against interest that is not going to be good value for money for the taxpayer, and, most of what I've seen to date, in my view, at this stage, would not be good value for money for the taxpayer, because it would either see us giving away all control, or would see the private sector heavily benefit from any upside, at a loss to the public sector. But I imagine that, in time, the right deal will come round on that.

[258] **Mr Jones:** I think it's about finding the right strategic partner as well. As Jim said, there have been people who have voiced an interest in it as well,

but, you know, what's the Government trying to do here? Is it trying to get out of its investment in the airport as quickly as it can, or is it trying to create an asset that is going to be of lasting benefit to the economy, which is, after all, the motivation for buying the airport in the first place? If that's the direction of travel, then there's a question about finding the best strategic fit—someone who shares the same sort of vision as the Government does.

[259] **Lee Waters:** And what's the answer to that question you've just posed?

[260] **Mr Jones:** Which is, 'Why did we buy it?' or—

[261] **Lee Waters:** No—what is the Government trying to do?

[262] **Mr Jones:** I think the Government is trying to ensure that there is an air—. It was the conclusion of the committee last time around that the airport was bought because it's a key piece of economic infrastructure for Wales, and, if we want to maintain that, then we need to make sure that, if we are going to get a partner, they share that vision. Otherwise, there's a danger we'll revert back to the situation that we had before, which resulted in a huge lack of investment and the running down of the facilities.

[263] **Lee Waters:** So, are you considering a joint venture?

[264] **Mr Jones:** I think all options are worthy of consideration. Are we sitting here at the moment actively considering a bid from a particular partner and doing the necessary due diligence on that? No, we're not.

[265] **Lee Waters:** Okay. I do want to ask about performance indicators. The auditor general noted that the Welsh Government had set wider objectives for the airport, beyond simply financial performance, but there's no detail on what those wider performance indicators are. Are you able to tell us?

[266] **Mr Price:** Yes, so I'll ask Simon to cover the detail, but there's almost approaching a balanced scorecard approach now, looking at passenger numbers, destinations being served and, broadly speaking, the way it's supporting the economy, and we could certainly send you a note on that as well. Simon, do you just want to rattle through just a few—?

[267] **Mr Jones:** Yes, so, I can't share it with the committee because it's commercially sensitive and our colleagues at the airport would have my guts for garters. But they do now produce a monthly dashboard for us, which

does talk about passenger numbers, some of the financial data that we've just been talking about, available seats, average load factor, customer satisfaction, performance, health and safety, security and compliance, and media activity. So, there is a wide range of factors that describe how the business is doing and it's got a 'red', 'amber' or 'green' notation against it and that's reviewed whenever we have a holding company board meeting. That forms a key part of the agenda—the detailed review of the KPIs. But that's also presented to the airport operational board on a monthly basis as well.

[268] **Lee Waters:** In terms of those wider factors, what's the thinking with how the Well-being of Future Generations (Wales) Act 2015 will apply to the airport?

[269] **Mr Price:** We're looking at that right now, aren't we?

[270] **Mr Jones:** Yes, we are. As it currently stands, Cardiff Airport isn't a named organisation as far as the Act is concerned, I think. I think, though, that some of the principles do apply to it and that's a piece of work that we need to do with the airport.

[271] **Lee Waters:** You need to do or you are currently doing?

[272] **Mr Jones:** I think we need to see that through to see to what extent the requirements of the Act apply to the airport.

[273] **Lee Waters:** Do you have a timeline for completing that work?

[274] **Mr Jones:** I think it'll be something that we'll be introducing to them as we go through the business planning process, which will be kicking off over the next few months. So, the business plan is produced on an annual basis. The business plan needs to be in place for the beginning of the financial year. So, the airport board is working that business plan up at the moment for discussions with Holdco in the new year.

[275] **Mr Price:** In addition, and I guess mainly for the record, I should state that, when we bought the airport, we did do quite a wide-ranging, economic-socio piece of analysis, which included looking at carbon emissions, et cetera. We concluded on the basis of all of that that, in the round, from a sustainable development point of view, what we were doing was justifiable. So, I think what Simon's talking about there is a legal point

really, as in, what's caught within the Act and what isn't caught within the Act. But all of our activity as a Government is obviously caught within the Act and, even if it wasn't within the Act, we would want to look at it in that way and we continue to do that.

[276] **Lee Waters:** Will you be producing some kind of formal assessment on how the Act applies to it at some point?

[277] **Mr Price:** Shall we provide a note on this?

[278] **Mr Jones:** Yes.

[279] **Mr Price:** Only because I don't want to mislead the committee by saying anything that we then don't do, because we're taking advice on this now.

[280] **Lee Waters:** That would be good. Okay, thank you. Just on governance, the Welsh Government originally proposed that the chair of the airport sits on the holding company. That didn't happen, but the auditor said in his report that he thinks it should. So, is it planned for the management agreement to be amended for that to happen?

[281] **Mr Price:** Okay. So, I'll ask Simon to deal with the detail of this, but just to say that we've considered very carefully the recommendations that were made. A team of people went up to Scotland and spoke to the Scottish Government and to the Prestwick team about what they do and we have concluded that the mechanism we have, which is that there's a different chair for Holdco to the chair of Cardiff International Airport Limited—and Simon is the chair of Holdco and Roger Lewis is the chair of Cardiff International Airport Limited—is correct for us because we want separation of duty and we want challenge from Holdco. That's what Holdco is there for. That's not to say that Scotland haven't got a good rationale for what they're doing. But we are doing two things: we're bringing an additional board member on to Holdco, through a public appointments process, and that's proceeding as we speak, and I believe the airport are also bringing on an additional non-executive director to give them better scrutiny of their business. I don't know, Simon, if you want to—.

[282] **Mr Jones:** Yes, just to go to a specific point there about the chairman's role—the chairman of the airport board—on the Holdco board, we have agreed to amend the management agreement. So, if it would be helpful to

the committee, I can share the correspondence between Holdco and the airport company that discusses the amendments to the management agreement.

[283] **Lee Waters:** Yes, please.

[284] **Mr Jones:** But, essentially, in that, we're formalising the fact that the chairman will attend the Holdco board, and it's at the chairman's discretion what other directors of the operational company he would like to bring along. The reciprocal arrangement is also in there, but that's going through the amendment process at the moment.

[285] **Lee Waters:** And the non-executive that you're appointing with commercial governance experience, what's the timeline for that appointment?

[286] **Mr Jones:** As James said, it's going to be done through a public appointments process. We'll probably start that—. We'll be ready to start in about a month, I think, by the time we've got agreement, hopefully, from the Minister to do that. We probably won't start that process just before Christmas, because it'd be the wrong time, so we'll probably initiate that in January, with a view to having an appointment made by the end of the financial year.

[287] **Lee Waters:** Okay, thank you.

[288] **Nick Ramsay:** Okay, we've got a few Members with questions now, so can we be succinct? Mike Hedges.

[289] **Mike Hedges:** I'm always succinct, Chair. Compared to the other top 20 airports, what has your growth rate been like in the last 12 months?

[290] **Mr Price:** Go on, Simon, you've got the figures.

[291] **Mr Jones:** I think, in the top 20 airports in the UK, it's right up there. I couldn't tell you exactly where the airport places in that list, but it's right up there in that list.

[292] **Mike Hedges:** For 2014–15, it was top.

[293] **Mr Jones:** There we are.

[294] **Nick Ramsay:** There you are—you've been told.

[295] **Mr Price:** There've been 16 months of consecutive growth.

[296] **Mike Hedges:** Thank you.

[297] **Nick Ramsay:** Oscar—Mohammad Asghar.

[298] **Mohammad Asghar:** I have a direct question: has the Welsh Government conducted any feasibility study to return Cardiff Airport to private ownership? That's one. The second is: surely, this is a critical step to freeing up additional funding for capital projects and providing much-needed investment for our ageing air transport in Wales. Don't forget that most successful airports in the world are run by the private sector, rather than the government.

[299] **Mr Jones:** Shall I take that one? I think we've touched on are we having any active discussions at the moment about private ownership, and the door's open, but there's nobody at the moment. But, in terms of the point about private versus public ownership, one of the most successful airport groups in the UK is Manchester Airports Group, which is 65 per cent owned by the local authorities in Manchester and runs a series of different airports across the country. So, I think—

[300] **Nick Ramsay:** Don't feel that you have to get drawn into a policy issue about private versus public.

[301] **Mr Jones:** All I wanted to do is just say that the option of looking for private investment is there, but we haven't got an active suitor that we're looking at, at the moment.

[302] **Nick Ramsay:** Rhianon Passmore.

[303] **Rhianon Passmore:** You mentioned right at the beginning the reason for purchasing the airport. In terms of the scoped master plan, which has been commissioned, I believe, by Chris Cain, when is that going to be public?

[304] **Mr Jones:** So, the work that Chris has been asked to do—. Chris isn't a master planner, but he's an aviation expert. So, Chris has been asked to produce a brief, if you like, for the master plan, but the master plan is going

to cover not just what's inside the boundary fence at the airport at Rhoose, but the development area that is outside, which was set out by the enterprise zone board and also our interests at St Athan. Things are a little bit fluid there, because, last week, the Ministry of Defence announced that they are going to be making some changes to military provision at St Athan, so that's got to be taken into account.

[305] The instructions that are with Chris are to have this brief with us by the end of this year. I haven't yet spoken to him about—

[306] **Rhianon Passmore:** So, this financial year.

[307] **Mr Jones:** No, at the end of this calendar year was when Chris was due to produce the brief. We need to revisit that now, given the implications of the MOD announcement last week.

[308] **Rhianon Passmore:** So, will that be delayed?

[309] **Mr Jones:** I think we need to have some discussions with the MOD about how much land they need to take at that site, because, actually, that will have a material impact on our plans.

[310] **Rhianon Passmore:** Okay, so, when do you think it will be—?

[311] **Mr Jones:** Well, officials are meeting with the MOD over the next couple of weeks to understand what their requirements are, and it's only once we've done that that we can then go back and say, 'Well, this is the impact on the scope'.

[312] **Mr Price:** I think it's reasonable to assume that it's going to be a few months, isn't it? At least.

[313] **Mr Jones:** I would've thought so.

[314] **Rhianon Passmore:** So, April, February?

[315] **Mr Price:** I'm not going to commit to anything, because I don't know when the MOD will provide us with any information.

[316] **Rhianon Passmore:** So, as soon as you know, you will report back to this committee.

[317] **Mr Price:** Yes.

[318] **Rhianon Passmore:** Okay, thank you.

[319] **Nick Ramsay:** Okay. Thank you. Item 5 is the—

[320] **Neil McEvoy:** Chair, I have some questions.

[321] **Nick Ramsay:** Sorry, Neil—Neil McEvoy.

15:30

[322] **Neil McEvoy:** I'm glad you mentioned Cardiff Aviation. I've just been looking at the marketing material there. My question is: why did the Government sell the St Athan enterprise zone when the instrument landing system wasn't fully operational, and therefore, aircraft couldn't or wouldn't land there? Secondly, why hasn't Cardiff Aviation paid any rent? I'm told that's because of the inability of the landing system to work properly. Thirdly, eCube, the building where that is, is going to be returned to the RAF, so the public purse will have to pick up the tab. But, if you could deal with the first two, I'd be grateful.

[323] **Mr Price:** Simon, can I ask you to deal with the landing systems if that's okay?

[324] **Mr Jones:** Of course. My understanding is that the landing system—. It was an ambition of ours to have the landing system working, but I think when we have talked to prospective tenants down there, there was no commitment made to say, 'This system will be working on the day that you move in'.

[325] **Neil McEvoy:** Okay, so we've got a facility that seeks to attract aircraft, but there's no landing system that enables them to land.

[326] **Mr Jones:** No. This is an instrumented landing system, which is a back-up for a visual landing system. So, it is possible for aircraft to take off and land there. There are times of the year when it's not possible to do that—during periods of heavy fog, for instance, which is when the ILS becomes a factor. But for the majority of the time, I think it is perfectly possible for aircraft to take off and land without the ILS in operation.

[327] **Neil McEvoy:** It's perfectly possible, but would you have any comment on the fact that the contract with EasyJet was lost, because of the inability to have the instrument landing system working as it should be?

[328] **Mr Price:** Can I just come in on this? I've got only a high-level overview of this, but it's an RAF controlled base, it's an RAF controlled runway, and this has been the source of quite a few difficulties. I believe, in the beginning, the local management in the RAF signed up to doing things that haven't yet been able to be delivered. As the Welsh Government, to a certain extent, we find ourselves in the middle. So, we own the land that we're letting out, the RAF provides a service to us and the RAF haven't always delivered what they said that they were going to. We've had a process to gradually take that over from the RAF. I don't know where we are on that, currently.

[329] **Mr Jones:** I think it's 2019 that we take full operation.

[330] **Mr Price:** At which point, I think it's a much fairer criticism of the Welsh Government in itself, if we don't deliver things. At the minute, we're an intermediary and that is the only operator that I'm aware of that has complained about the position.

[331] **Neil McEvoy:** Well, I'm told there are more. But it is a loss of millions of pounds, anyway, with that one operator. So, you're essentially punting something that doesn't have the required amount of machinery and operational ability that it would need.

[332] To go back to the second question, why hasn't Cardiff Aviation paid any rent? Is it due to the fact that the instrument landing system isn't operational?

[333] **Mr Price:** Do you know the details of that?

[334] **Mr Jones:** I'm not—

[335] **Mr Price:** Okay. I think we need to provide a note on that. It won't simply be due to that, no. I think there's been—

[336] **Neil McEvoy:** So, why have they not paid rent?

[337] **Mr Price:** I think there have been a number of disputes around that particular rental—we'll have to provide a note on that.

[338] **Neil McEvoy:** Just moving on, really, in terms of the whole due diligence, as we spoke about earlier, for the project, it's been alleged to me that there are misleading claims in the investment agreement. So, I'm making you aware of that now, as an official, in this public forum. What will be done? There are particular issues with the subsidiary company in the investment agreements in terms of the detail and the alleged investment that went in or didn't go in. So, I suppose, really, the crux of my question here is, I'm saying there's a lack of due diligence—

[339] **Mr Price:** Which company are you talking about, sorry?

[340] **Neil McEvoy:** Cardiff Aviation. I'm saying there's a lack of due diligence there, especially with regard to the subsidiary company, so it may be worth you reporting back at some point, to the committee, as to what—

[341] **Nick Ramsay:** Yes, but what's your question on that, Neil?

[342] **Neil McEvoy:** What will you do about it?

[343] **Mr Price:** I think—I note the comments you made. I can't comment on them, because I don't know any of the detail. I'm quite happy to look at it and, depending upon what we find—

[344] **Neil McEvoy:** I'll tell you what it is exactly: the subsidiary company was apparently proof of a cash investment by Cardiff Aviation, and I'm advised that there was no actual transaction of cash and that that was ignored by—well, not actually, I'd say, covered by—again, quite poor due diligence on the part of the public sector here.

[345] **Mr Price:** I will absolutely look into it. I'm not aware of any of that, and I think, just as a committee and as an official, we need to be careful we don't say anything in the committee that's unsubstantiated, so—

[346] **Neil McEvoy:** It would have been more substantiated if—

[347] **Mr Price:** I take it on board and I will have a look at it.

[348] **Nick Ramsay:** He's heard your question, Neil McEvoy. I think we need

to move on, because time is pressing.

15:36

**Gwasanaeth Awyr oddi mewn i Gymru—Caerdydd i Ynys Môn: Y
Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Intra-Wales—Cardiff to Anglesey—Air Service: Update from the Welsh
Government**

[349] **Nick Ramsay:** Item 5 is the intra-Wales Cardiff-to-Anglesey air service and an update from the Welsh Government. The previous committee published an interim report in July 2014 and a final report then in July 2015. In total, the reports contained 18 recommendations, which, with the exception of three being accepted in principle, were all accepted by the Welsh Government. So, thank you for being with us for this item as well. In terms of how we're getting on with those recommendations, where are we to date?

[350] **Mr Price:** I'll ask Simon to talk to the detail on this, but I think this is now—and this is not a negative comment—this is the third or the fourth time I've been to Public Accounts Committee about that particular service, so it's obviously a service that is of particular interest to people in terms of scrutiny. Just in terms of the wider context, before we get down to the detail of the recommendations, clearly, things have changed since I last gave evidence. When I last gave evidence, we were about to go out to tender. We did go out to tender and we did achieve a service that, for a while, represented a much better price, and the number of passengers was being driven up significantly. Unfortunately, as seems to be the case with that particular service, the operator failed and we've had to let an emergency contract. So, that has changed the context of the recommendations and replying to the recommendations, but I certainly personally valued the recommendations very highly, particularly the ones around the marketing of the service and driving the passenger numbers up. They were wholeheartedly taken on board by the operator as well, and I think that's a large reason why the numbers went up before they then fell off. Simon, do you want to just—?

[351] **Mr Jones:** Yes, I mean—

[352] **Mr Price:** Are there any particular ones, because there were so many?

[353] **Mr Jones:** Are there any particular recommendations you'd like us to talk to?

[354] **Nick Ramsay:** What I wanted to ask you about more specifically was the update on passenger numbers that you provided, which was part of the original report. That's crucial. Do you accept that, if you take together the various sets of figures, they suggest that there may have been a sharp reduction in passenger numbers during the second half of 2015–16?

[355] **Mr Price:** Yes.

[356] **Mr Jones:** Shall I take that?

[357] **Mr Price:** You can.

[358] **Mr Jones:** Towards the back end of 2015, it was well publicised that the operator that we were in contract with, Links Air, had lost its air operator certificate, so we had to bring in a—. They had to sub-contract the work to another company, and then in early 2016, as James said, the company just walked away from the contract without notice. So, we had to then directly contract with the company that had been providing the service in the short term. We managed to do that without any interruption in service. So, Links Air walked away on the Friday and, on the Monday, there was a new arrangement in place. Then we had to go out to tender to get somebody in for the slightly longer term. But all of that lot was against a backdrop of negative publicity. We have seen in the past that the service is subject to variations in passenger use when it's subject to negative publicity. So, when there was a break in service in 2010, the passenger numbers declined pretty rapidly and took a good few years to recover. So it doesn't come as a surprise that there was a drop in passenger numbers. What I would say is that the passenger numbers that we've got forecast for November—the advance sales that we've seen for November—are actually looking pretty strong in comparison with previous years. So, there was definitely a blip because of the bad publicity. It's coming back again.

[359] **Nick Ramsay:** In response to the previous committee's report in September 2015, Welsh Government committed to publishing passenger numbers on an annual basis along with a calculation of subsidy cost per passenger. Is that happening?

[360] **Mr Jones:** I think we've put some of that information on our website. It

was certainly our intention to do that.

[361] **Nick Ramsay:** Okay. If I can ask you about the review, I think initially you commissioned Arup to carry out a review of the service. In your latest update, the Welsh Government describes a further external review. Can you tell us when that review is likely to be complete?

[362] **Mr Price:** Again, just to put it into context, the Arup review was particularly looking at the north–south service as is, and was looking to inform questions such as, ‘Is the private sector using it?’, ‘How much use is there by the public sector?’, ‘Is it good value for money?’ and ‘Are we best using all the rules and regs within the public service obligation regulations?’ et cetera. The current review is looking much wider and saying, in the context of a situation where now we own the airport and we have Wylfa Newydd going ahead what air services and/or high–speed transport services are required between north Wales generally, south Wales and other parts of the UK and Europe. In terms of the timing thing, Simon, you’ll be better aware of that than I am.

[363] **Nick Ramsay:** It has taken longer than originally envisaged.

[364] **Mr Jones:** It has. I think the report was commissioned—. So, the sequence of events was that the company went bust in January, as I said, and then we had a new Government, and then we had the purdah period around the European referendum, so it wasn’t right for us to go out to tender until the beginning of July, by which point we had a new set of Ministers who actually asked us to do the wider–scale review that James has just described. So, that’s the starting point, essentially. I think in terms of when that’s going to be concluded, Christmas is the end date for that piece of work.

[365] **Nick Ramsay:** Okay, thanks. Rhianon Passmore.

[366] **Rhianon Passmore:** I think it’s already been covered in terms of this long–term study that you now say will report shortly in terms of the future. What is your view in terms of its sustainability?

[367] **Mr Price:** I’ll come in. At one level, I think it’s not for us as officials to answer that question. These are policy matters and political–direction matters. I know that different people’s views vary massively on this topic area. So, some people will say it’s really important for the socioeconomic characteristics of Wales to enable this service to take place, and others will

say it's a very expensive service and poor value for money. I won't comment at all on the political join-up comments.

[368] In terms of the value-for-money comments, though, I think it massively depends how you do the calculations and what service you're looking at. On the 'how you do the calculations' bit, because this is a different Public Accounts Committee from the previous one, there was quite a lot of criticism about the proportion of public sector workers who were using it—not Welsh Government employees, but public sector in a broader sphere: local government, health service and academics. But when we ran the numbers and you looked at the fact that they weren't staying overnight in a hotel, and they weren't taking a day to travel, then all of a sudden the numbers looked much more positive. So, it does depend what lens you look through at this. With Wylfa coming up, with wider potential opportunities, then the value for money could look different again. I think all we can do as officials is provide rounded advice to Ministers, and that will then get scrutinised through the political process.

15:45

[369] But I think you could make a rational argument to say it provides value for money, I think you could make a rational argument to say it doesn't, depending on your point of view, because it depends what lens you look through. I'm sorry if that's an unhelpful answer.

[370] **Rhianon Passmore:** No, no, I accept that that's difficult.

[371] **Nick Ramsay:** Do the fluctuations concern you, the fluctuations we've had since 2010 and then—?

[372] **Mr Price:** With the numbers?

[373] **Nick Ramsay:** Yes, I'm thinking in terms of planning. Surely a fluctuating figure like that—okay, it might be doing well one year, but if you can't guarantee that in the future consistently, isn't that going to cause problems for value for money?

[374] **Mr Price:** I think it's a very difficult service to run. So, if I go back to when I was first involved in this, when Highland Airways were running it, it was said that Highland were making a significant amount of money on it. In fact, I remember the managing director telling me this, about two months

before the company went bankrupt. And then we've had a similar thing, going on and on. So, it appears that very small operators, whilst they can adhere to what you would imagine is the most difficult thing to do, i.e. maintain and run a plane and run all the systems and checks that are necessary, don't seem to be able to run a business plan particularly well. And this is something we'll obviously have to look at for the next thing we run. At one level, I don't care if an operator goes bankrupt, provided that, on Monday, there's someone else there, but if it provides uncertainty in the marketplace and then it makes it less value for money, then I do care.

[375] **Nick Ramsay:** Oscar.

[376] **Mohammad Asghar:** Thank you, Chair. Thank you very much indeed, James. The fact is this: have you got any business plan for the Anglesey route, because of the development in the Anglesey area, with the atomic plant and all the rest? And finally, there's Brexit; what impact has it had on this route, from everything in Wales, Anglesey and Europe?

[377] **Mr Price:** Okay. So, I'll answer at a high level and then bring Simon in. So, in terms of a business plan for what this might mean for Anglesey and the like, I think we're just beginning to get into that now, because it's still not completely apparent exactly what the demands of Hitachi will be in terms of transport, and where they want to be transporting people from. It's equally not clear whether they might actually themselves be able to contribute to the service if they're benefiting from the service, for example.

[378] In terms of Brexit, at a high level, I think there are three, four, factors at play—and I will not comment on any of them—one of which is the economy as a whole and to what extent that impacts, or doesn't impact, on people's wish to travel. The second will be just the euro effect on inbound tourism and outbound tourism. So, we would expect higher inbound tourism into Wales, who might use the airport, but lower outbound tourism as a result of the lower pound, who might use the airport or the north-south service. And then we are seeing—it's anecdotal—a bit of a retrenchment of business to want to trade more within the UK. Now, both businesses in south Wales, via Cardiff Airport, and businesses in north Wales, via Anglesey, might want to see more regional routes as a consequence, in terms of getting into the rest of the UK. I don't know if there's anything, Simon, I've missed on that.

[379] **Mr Jones:** No, I don't think so. I think the Horizon point is interesting;

Horizon's headquarters are in Gloucester, rather than Cardiff, so actually there's an argument there for the company to potentially think about how that works for them, because that's a pretty long trip up from Gloucester to Anglesey, but they'll be bringing workers in from across the UK and across the world, potentially. So, I think there are a lot of discussions to be had about how all that fits together with the company's plans.

[380] **Neil McEvoy:** I just wondered if the Arup study covered public transport and what public transport exists now to enable people to take the flight and get to where they need to go in north Wales.

[381] **Mr Price:** I believe it did. It certainly covered end-to-end journey times, in the sense of what it would mean for a person who lived in Swansea to get to the airport, and then go to north Wales and go to the end destination. And it included the price both of time and of ticket and of subsidy of all of those different itineraries.

[382] **Neil McEvoy:** I took the plane once; it was really good. It was excellent; it got to the meeting in north Wales in plenty of time, and I wasn't so tired without driving, but I was lucky because I was being picked up. And I wanted to take the service again, and I couldn't because there was no public transport. There was no bus at the other end, really, so I wasn't able to get to where I was going in north Wales.

[383] **Mr Price:** Okay, we'll look at that again. It was looked at.

[384] **Neil McEvoy:** It's just that you think it's such a basic thing. Again, if you're selling an airport then, clearly, a bus is—

[385] **Mr Price:** I think that's a fair point, balanced by the value for money argument that says, 'Well, how many people are going to use the bus?' I know it's a chicken-and-egg—maybe more people would use more buses if there were more available—but that will all be part of this.

[386] **Neil McEvoy:** A taxi service would have been helpful. If it had four passengers that wanted to take it, and—

[387] **Mr Price:** Okay. It's a good point.

[388] **Nick Ramsay:** Okay, if you could look at that, that would be great.

15:51

**Buddsoddiad Llywodraeth Cymru yn Seilwaith Band Eang y
Genhedlaeth Nesaf: Y Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Welsh Government Investment in Next Generation Broadband
Infrastructure: Update from the Welsh Government**

[389] **Nick Ramsay:** Moving on, item 6 is the update from the Welsh Government on Welsh Government investment in next generation broadband. The previous committee reported in March 2016, making 10 recommendations, which have all been accepted by the Welsh Government. If I can start by asking you, in terms of targets, in June 2015 the Welsh Government set a target of 50 per cent take-up by 2024. Are we on target for that? Are we behind? Are we ahead of schedule?

[390] **Mr Price:** I'll let Simon take that one, because that's not a target I was particularly—

[391] **Mr Jones:** Okay. Excuse me—

[392] **Mr Price:** Sorry.

[393] **Mr Jones:** —I'm eating a cough sweet. So, I think we're about 29 per cent take-up as we sit here today. We haven't finished rolling the infrastructure out yet. It's worth putting that in context. When we signed the contract with BT in 2012, BT estimated that by 2023 take-up would get to 21 per cent. So, we've already beaten the target that BT believed, or the likely take-up that BT believed we would get when we signed the contract. And the significance of that 21 per cent is that when we exceed that take-up level, we're able to get some profit share back from the company.

[394] So, as we sit here today on 29 per cent, actually we're well positioned to be able to claw back money from our investment. So, is the 50 per cent achievable? Yes, we think it is.

[395] **Nick Ramsay:** Under the original terms of the contract, BT should have delivered 691,000 premises passed by June 2016. So, in effect, the roll-out is around—. If you take those figures, is the roll-out not behind schedule?

[396] **Mr Jones:** So, the contract was extended by a year a year or so ago in order to be able to incorporate a further 42,000 premises into the buildout.

And what we did with the 42,000 was we blended them with all of the existing premises that had yet to be passed, and the contract was re-profiled. So, we're on target to meet the end date that we've now set in the contract.

[397] **Nick Ramsay:** Okay. And in terms of marketing and communications, the auditor general's report noted that some local authorities had previously had concerns about the level of communication with the Welsh Government and BT, and were concerned at the lack of progress made in exploiting the benefits of next generation broadband. What's your view on the auditor general's comments?

[398] **Mr Jones:** So, I think it's criticising the marketing. It's something that we accept. There are things that, of course, we could do better; of course, we could pour more money into marketing. But whatever money we put into it is going to be tiny in comparison with the amount that's being spent by the likes of Sky, TalkTalk and BT on their own advertising. You know, there are billboards and tv adverts all over the place. We couldn't possibly hope to compete with that.

[399] **Mr Price:** And nor should we.

[400] **Mr Jones:** And that's been a conscious decision, really, that we don't get into that. Where we're heading with our marketing strategy now is to be much more focused on providing local information to people, providing people with the information that—well, like the crucial piece of information, that once we've passed a premises, actually, then, the homeowner or the customer has to actually go out and choose to elect to buy superfast broadband. It doesn't automatically get upgraded for them. They won't suddenly move from the existing speed to a new speed. They have to go and do something. So, our key message, really, is that people need to switch, and I think that's our responsibility. As to where they end up switching to, actually, that's the responsibility of the retail service providers—that's BT, and Sky, and TalkTalk and all the rest of them—to convince them to go with them.

[401] **Nick Ramsay:** Do you sometimes feel that, rather than being the last port of call, you're being asked to step into the gap across all manner of areas?

[402] **Mr Jones:** Well, I mean, I suppose, as we're the funder, there

sometimes is an expectation, I suppose, that we should be doing that, but, actually, what we've invested in is a wholesale service. The wholesalers sell that on to the retailers, and it's for the retailers to have those direct customer relationships.

[403] **Mr Price:** And if I might just come in there, we've always been very wary about the retailers trying to get us to do their job for them and, in effect, spend money to drive their profits, which would be poor value for money for the public sector.

[404] **Nick Ramsay:** Thanks. If I can ask you about Access Broadband Cymru funds, at the time of the auditor general's report, this funding was only open to premises that were outside the scope of the Superfast Cymru intervention area. However, the update from the Welsh Government confirms new funding and ineligibility arrangements for two years from January 2016, with the scheme now open to all homes and businesses that cannot receive superfast connections. Is that the case? Is that not a change?

[405] **Mr Price:** Yes. And the reason for that case is that we want everyone in Wales, regardless of where they are, to be able to access broadband.

[406] **Nick Ramsay:** So, when was that decision taken to change the—?

[407] **Mr Price:** It was last year, wasn't it? The back end of last year?

[408] **Mr Jones:** Yes. So, there was a written statement issued by the Deputy Minister at the time, which I will find for you.

[409] **Mr Price:** I think it was October or November last year, but I might be wrong.

[410] **Mr Jones:** Yes. It was around the time that we gave evidence, I think, last time around.

[411] **Nick Ramsay:** And that was based on a policy decision to—

[412] **Mr Price:** Yes.

[413] **Mr Jones:** A policy change, which essentially said—. Well, I suppose, if you step back and think about what was going on at the time, we were moving ahead with the roll-out of superfast, and there was an increasing

number of premises that had access to the service. The intention, really, was that, as James said, anybody should be able to benefit from superfast broadband services, no matter where they are. The ABC criterion means that the beneficiary then needs to decide, 'Do I want to spend and put some of my own money into this?'—because it isn't just a 100 per cent grant; they got to match-fund that to a certain extent. 'Do I want to put some of my own money into this, or do I want to go and get superfast broadband from somewhere like BT, or Sky, or TalkTalk?'

[414] **Nick Ramsay:** Okay. And in terms of benefits realisation, the auditor general's report suggested that every £1 of public money invested in Superfast Cymru is expected to generate £6.70 in economic benefits for Wales up to 2024, and also recommends that the Welsh Government should consider undertaking further regular surveys to assess progress in business take-up and to explore the outcomes businesses are experiencing. Is that sort of payback on the pound what you anticipate?

[415] **Mr Jones:** Yes, I think it's slightly less. So, BT did a study a few years ago and I think they estimated it was something like a £9 return for every £1 invested. So, it's consistent. It's not surprising there is a slight difference there, I suppose.

[416] **Mr Price:** Any of those figures would be considered good for an infrastructure cost-benefit analysis.

[417] **Nick Ramsay:** And are you following through on regular surveys?

[418] **Mr Jones:** So, we've established a parallel project called 'superfast business exploitation', which runs through until 2020. It's got about £12 million of funding, including a European contribution to that. And that's really about getting the messages out to businesses about why they should change and then encouraging them to change, and then, crucially, what they can do differently once they're using superfast broadband services. So, the messages that you set out then are part of what that project is aiming to deliver.

16:00

[419] **Nick Ramsay:** Often Assembly Members experience the frustrations of constituents on a regular basis now with broadband. Are you generally confident that we are on track—I know that there are a number of targets

there—and basically that this is happening at a pace that is acceptable?

[420] **Mr Jones:** What we shouldn't forget is this is really difficult.

[421] **Nick Ramsay:** And it's long term as well.

[422] **Mr Jones:** Yes. The reason why we're doing this is because the market failed. So, in Wales only about 45 per cent of premises got covered by commercial roll-out, so the Government has had to step in to deal with the rest. That's probably bigger than any other part of the UK. So, the challenge is huge and the reason it's so difficult is because it's expensive and a lot of the premises that we're passing now are pretty isolated places to get to. We're talking about 700,000-plus premises that we need to get to. We're now in a position where BT are having to almost design individual solutions for those premises. It's really difficult. It's really time consuming and really challenging. Are we confident they're going to get there? We're riding them really hard to make sure that they do. They've got some significant financial penalties if they don't meet their targets, so, yes, I think on balance we are confident they are going to get there. But, it's not going to be easy.

[423] **Nick Ramsay:** So, the more you get towards a target then, by its very nature, the areas that are left are going to be increasingly difficult to reach and will need more individual solutions.

[424] **Mr Jones:** Yes, absolutely.

[425] **Nick Ramsay:** So, if you're at 90 per cent, it's easier to do the next few per cent than it is when you get to 98 per cent and so on.

[426] **Mr Price:** Yes, in theory, it gets more and more difficult as you get towards 100 per cent. What I would argue is that we have a theoretical 100 per cent already in terms of the Access Broadband Cymru scheme, so anyone who wants it can get it. But in terms of the BT contract and particular types of technologies, as you get closer and closer to that theoretical boundary, it gets more and more difficult. What I can say is in the last set of management figures I saw for the last full financial year, which would have ended in this April, everything was on track and I believe that Simon's going through all of the figures for this year to try and agree the run-out of the contract in the most effective way.

[427] **Nick Ramsay:** Lee Waters.

[428] **Lee Waters:** How satisfied are you with BT's performance under the contract?

[429] **Mr Jones:** We have some pretty robust discussions between us. As James said, they're meeting their roll-out targets. It's really challenging, it's really difficult. But, on balance, they are delivering for us. They've passed 610,000-plus premises at speeds of over 30 Mbps. That's the headline figure that we quote. Those are the figures that we go out and test and verify. So, we actually go out on the ground and make sure that they've actually achieved those figures, which is just a huge, huge number of premises that they've actually passed. I think they deserve credit for achieving that as we sit here now. They have actually passed more premises than that. That's the number that we're contractually obliged to pay them against. Actually, there are a whole slew of other premises that will get brought along because they sit outside the contract. So, there's probably another 20,000 or 30,000 premises that are benefiting from our investment, but we're not counting them in our figures, perhaps because they don't meet the speed criterion that we've set out in the contract. So, we have a testing relationship at times, but I think actually they are delivering.

[430] **Lee Waters:** Because whenever I hear the relationship described, euphemisms like this are always used: testing, challenging, robust. Why is the relationship proving so fractious do you think?

[431] **Mr Jones:** Because we want to push them to be able to deliver all the things that are in the contract. We've got quite a demanding contract. Our contract—I think the previous committee and the WAO noted—has probably got more hooks in it and more levers in it than other contracts of a similar ilk elsewhere in the UK and we're making sure that we're using all those levers.

[432] **Lee Waters:** Because the marketing contract you decided not to renew with them and to bring that in-house. What are you doing differently that they weren't doing?

[433] **Mr Jones:** It was right to have BT to help us with the marketing over the first three years of the contract because, at that time, the message that we were giving was all about when people were going to get access to the solution. So, BT were well placed to do that. As we're now in a position where there are, if you like, almost as many people who are not going to get it as who are going to get it, the message isn't just about, 'When is it coming?' It's

more about, 'Well, what's the solution for me? What can I do? How can I get access to the solution?' James has talked about the ABC scheme, which is a scheme that we administer ourselves, so it wouldn't actually be right for BT to be marketing our ABC scheme—that's for us to do. We've got a new marketing solution, which is about telling people what they can do to get access to superfast broadband—not just about, 'When is the BT roll-out coming to me?'

[434] **Lee Waters:** You've set targets for roll-out, but you haven't set targets for take-up. Do you intend to set targets for take-up?

[435] **Mr Jones:** I think we covered that earlier on. There is a target for take-up of 50 per cent by 2023, which we are on course to meet.

[436] **Lee Waters:** Okay, thank you.

[437] **Nick Ramsay:** Neil McEvoy.

[438] **Neil McEvoy:** Very quickly, when the contract was signed, was there any relationship between any senior people in British Telecom and any Government Ministers?

[439] **Mr Price:** None that were involved in the decision-making process.

[440] **Neil McEvoy:** In terms of wider openness, was there any relationship between anybody senior in BT and any Government Minister, even if they weren't involved in the decision-making process?

[441] **Nick Ramsay:** I don't think you need to answer that question.

[442] **Neil McEvoy:** People are watching, Chair. We had a Labour Government Minister married to the director for Wales of BT. I just wonder if there was any declaration of interest made, really.

[443] **Mr Price:** I imagine that there was, but what I can absolutely clarify is that there was no involvement in that decision, I believe, by any other Minister other than the then portfolio Minister. The decision was also subject to significant scrutiny from an external panel that was brought in to scrutinise the procurement.

[444] **Neil McEvoy:** Absolutely. Thank you.

[445] **Nick Ramsay:** Rhianon Passmore.

[446] **Rhianon Passmore:** I would like to just congratulate the relevant people, and you, with regard to the roll-out of this programme to date. I look forward to the 50 per cent take-up and beyond.

[447] **Mr Price:** That would mainly be Simon and Simon's team.

[448] **Mr Jones:** Thank you. I'll pass that on.

[449] **Nick Ramsay:** Oscar, very briefly.

[450] **Mohammad Asghar:** Thank you very much indeed, and thank you, panel. Thirty-eight per cent of Welsh adults have just one basic digital skill, and 14.3 per cent of adults have never used the internet. What initiatives are being taken to ensure that the delivery of superfast broadband is married to increasing internet literacy across Wales?

[451] **Mr Price:** Can you take that one or shall we provide a—

[452] **Mr Jones:** Yes.

[453] **Mr Price:** It might be best for us to provide a note, because there's a whole host of different things that are being done by different providers, primarily not out of Simon's team. So, there's a whole load of work that's being done in schools, and there's a project that Simon also runs that runs out broadband into the school sector. There's a project in universities and colleges, and there's also the business projects that Simon has talked to. But, because it's so wide, I think it would be better for us to provide a note, otherwise I'll miss out quite a bit. But, at one level, it's a shocking figure, isn't it?

[454] **Mohammad Asghar:** Thank you.

16:08

**Ymchwiliad i Werth am Arian Buddsoddi mewn Traffyrdd a
Chefnffyrdd: Y Wybodaeth Ddiweddaraf gan Lywodraeth Cymru
Inquiry into Value for Money of Motorway and Trunk Road Investment:
Update from the Welsh Government**

[455] **Nick Ramsay:** Item 7 is the inquiry into the value for money of motorway and trunk road investment that was commissioned previously. We've received an update from the Welsh Government. The previous committee reported in June 2015, making 18 recommendations, which were all accepted. Mike Hedges.

[456] **Mike Hedges:** The first question is one that I asked last time as well. Motorways and trunk roads need to be maintained—no-one argues with that. What has been done since we last had this discussion to ensure that when that happened, on the alternative routes there weren't going to be people undertaking either maintenance or work being done by the utilities? What's been done to re-sequence lights? You have quite a lot of lights moving people, which work very well when the motorway is taking all of the traffic, or when the A55 or the M4 take the traffic, but if people are moved off them, then those lights need to be re-sequenced. Has any progress been made on that?

[457] **Mr Price:** I can remember that session vividly now. [*Laughter.*] It's all come flooding back to me as you said that. We've made some progress, but not enough, I think. The progress we have made is in working more closely with local authorities to plan strategic diversions when those diversions are planned. When they're unplanned, which often happens as a result of an accident or maybe a failure of some part of infrastructure, but mainly an accident, I think we're much less good at it. It also varies across different local authorities; some local authority areas have been better in working with us than others, so it's an area that you still need to be scrutinising us on. We haven't got it right yet.

[458] **Nick Ramsay:** Simon, do you want to—?

[459] **Mr Jones:** Sorry, can I just add to that? In June of this year we did publish a document, which is taking us in that direction. So, it's our national approach for road and street works, which covers five areas: one of which is about the co-ordination of street works in future. So, we have taken that

lesson on board. We have provided some guidance on how we can do this—.

[460] **Mr Price:** The specifics though, in terms of the phasing of the lights bit, was when we close a particular road, people go to a different area and the phasing needs changing. Now, where that's easy to do, I believe it's being done. Where they've got very old fashioned lights, it's not being done.

[461] **Mike Hedges:** A classic example is if the M4 is blocked around Swansea, the A48 becomes a major road, and you can get very long queues on it if the lights aren't re-sequenced. I'm sure they have exactly the same thing in Cardiff with the M4 and the A48M. But, anyway, I'll stop on that. I'm fascinated by the term

[462] 'cross asset investment and cross asset prioritisation methodology'.

[463] What does that actually mean?

[464] **Mr Price:** That's a really good question, and when I first saw it I had to ask as well. What it is trying to do is, if you like, compare apples and pears. So, it's quite easy to rank order potholes, for example, and say, 'This pothole needs to be repaired more than this one because it's bigger, or it's in a more heavily trafficked area.' It's much more difficult to rank order potholes against kerb damage, for example. I was going to use a different example: bridges versus surfacing. So, what we have tried to do is to create a prioritisation system that allows different things—bridges, kerbing, surfacing, ditching—to be prioritised against each other. Largely speaking, the prioritisation is safety first for revenue activities, and capacity and reliability for capital activities.

[465] **Mike Hedges:** You've got a target of 8 per cent of the trunk road network requiring maintenance, set out in the last programme for government. Does that mean that each section of road will be resurfaced every 12 and a half years?

[466] **Mr Price:** No, it's not as clear cut as that. So, just speaking personally, this is sort of my specialist area because I was brought up in a family of three generations of road surfacing and civil engineering contracting—I'm sure we could surface cycle tracks as well. None of them operate anymore, so there's no conflicts of interest. Can you be, sorry, the specific—?

[467] **Mike Hedges:** You said 8 per cent of the trunk road network requiring

maintenance. Does that mean re-surfacing every 12 and a half years?

[468] **Mr Price:** So, no, it doesn't. It depends what the weather's like, what surfacing has been used, how highly trafficked it is. Sorry, the family example I was going to give was that the A30, which my grandfather built, was re-surfaced after 33 years. So, some things can have exceedingly long lifetimes. A big debate that we're having currently is whether we should use thin or thick surfacing. Thin stuff: you see it breaking off, and you see these quite thin potholes appearing. It's easier to put down, it has less noise, but it doesn't last very long. Thick surfacing, which used to go down, lasts forever, it's more expensive to put down, and it's marginally noisier.

[469] **Mike Hedges:** You also had the concrete versus tarmac debate as well.

[470] **Mr Price:** Absolutely.

[471] **Mike Hedges:** And I think you've come down in favour of tarmac, haven't you?

[472] **Mr Price:** Yes.

[473] **Mike Hedges:** The last question from me is: how has the Welsh Government evaluated the long-term funding approach applied to Highways England, and whether that should be applied in Wales?

[474] **Mr Price:** Okay. So, we're still watching that. What I hadn't realised when I last gave evidence is that the commitment that Highways England has been given is around capital rather than around revenue, and actually the contracting community and the engineer community will argue that it should be around revenue rather than around capital. So—

16:15

[475] **Mike Hedges:** I was going to say: in highways, capital and revenue are interchangeable, aren't they?

[476] **Mr Price:** No, not as much as they used to be. Revenue activities will include monitoring, regular and routine maintenance and interventions—filling in a pothole—and it will not include upgrading, in any way, of the infrastructure.

[477] **Mike Hedges:** That's where the friction comes in, isn't it? In terms of capital and revenue with maintenance, it's how much you need to resurface and it would be moved from capital to revenue and that's a decision you make yourselves, isn't it? So, that's what I mean by them being interchangeable.

[478] **Mr Price:** To a certain extent, they are interchangeable, yes. But we're watching what's happening in England. It is not the case that England has got five-year maintenance budgets, which is what people talk about there being a necessity to have.

[479] **Mike Hedges:** That's me, Chair.

[480] **Nick Ramsay:** Thanks. Lee Waters.

[481] **Lee Waters:** Thanks. I'd like to ask about the cost-benefit analysis you use—WelTAG. You committed to producing new draft guidance by the end of last year. We're now near the end of this year and it still hasn't been produced. Can you tell us why?

[482] **Mr Price:** I'll ask Simon to come in in terms of the original delay. I believe that the latest update that we provided said that we would be going out to consultation this calendar year.

[483] **Mr Jones:** Yes.

[484] **Mr Price:** And we still intend to go out to consultation this calendar year. One of the reasons that it's taking a bit longer is that we are ensuring that everything that is in it is fully compliant with the future generations Act. So, it has taken longer. It should be better as a consequence. I don't know, Simon, if there's—

[485] **Mr Jones:** I don't think there's any more I can add to that.

[486] **Lee Waters:** What role will the future generations commissioner have in scrutinising the new guidance you come up with?

[487] **Mr Price:** I don't know the answer to that. Obviously, she's able to comment on anything she wants to, including that, publicly or behind closed doors—and we do have conversations behind closed doors as well. But it might be that we have to provide a note on that.

[488] **Mr Jones:** We'll provide a note on that one.

[489] **Lee Waters:** Okay, thank you.

[490] **Nick Ramsay:** Rhianon Passmore.

[491] **Rhianon Passmore:** Can I just ask if the highway schemes listed in the national transport finance plan are on schedule?

[492] **Mr Price:** The national transport finance plan—if I had a copy in front of me now, it would be easier to answer the question. I believe that we are broadly on track to deliver everything in it, but we need to remember that it becomes increasingly less certain as the time goes on. That's not, kind of, me covering anything up—the document's very clear that lots of things are quite a long way into the future, so what we'd be saying we're on track with is preparation work for some of those longer-term schemes.

[493] **Rhianon Passmore:** So, how is that reviewed and updated so that we can just crystal-ball gaze?

[494] **Mr Price:** Simon, you can talk to that.

[495] **Mr Jones:** There has been a public consultation on the plan, as well, but the idea was that this document got reviewed and updated on a fairly regular basis. Actually, one of the things that came back from the consultation was that industry and people out there need a plan; they need to understand what's going on. So, the plan was issued in July of 2015, I think. So, arguably, we're due another update on that. I think—

[496] **Rhianon Passmore:** Is that systematic, or are other reviews planned?

[497] **Mr Jones:** It will be.

[498] **Mr Price:** We said it would be a live document.

[499] **Mr Jones:** Where we are at the moment is that there's a new Government and a new programme for government, and the Government has the ambition of creating a series of overarching strategies for activities that are going to be undertaken, and transport will come under the 'united and connected' strategy. So, the idea, really, is to flesh out the 'united and

connected' strategy to understand what the requirements are of transport, in particular, under that strategy and then issue an update to the national transport finance plan, following the release of that strategy. It really wouldn't be sensible to issue one now and then have a strategy that contradicts it.

[500] **Rhianon Passmore:** Okay. And that will then come forth to this committee.

[501] **Mr Jones:** Yes.

[502] **Mr Price:** Well, it won't come to the committee, but you can request to scrutinise it, absolutely.

[503] **Rhianon Passmore:** That's what I mean. Okay.

[504] **Nick Ramsay:** Any other questions? Oscar.

[505] **Mohammad Asghar:** Thank you very much, Chair. A direct question to James again. Has there been any consideration of the multi-annual funding approach for trunk road agents, and will this be applied from 2017-18?

[506] **Mr Price:** This goes back to the comments I made about Highways England and getting five-year budgets in place, and the fact that—I only learned this this morning, actually—it's five-year capital budgets, not five-year revenue budgets. I expect the trunk road agents would like five-year capital and five-year revenue budgets, but the one the industry would particularly talk about is the revenue budget, and having clarity on that.

[507] So, we're not in a different place than England. Yes, we have talked about doing it, but in the context of annual budgets from the UK Government, it's very difficult for us to give five-year planning horizons for anyone that we fund. Actually, there are two arguments around this. So, any of my engineering colleagues would probably try to take me apart for saying this, but the argument that you should have a five-year plan basically says you need to have a very clear programme for maintenance, and you flatline that, and there are no troughs, or dips, or peaks in that. There's an equal and opposite argument that's increasingly being made, including by some people in the engineering community, that says, 'Well, that's not how you maintain your house'. You maintain your house on an 'as is' basis. When you have money to spend, you'll upgrade and deal with issues. When you don't

have money to spend, you'll make do and mend. So, exactly what the right balance between those two things should be, I don't know.

[508] **Nick Ramsay:** But changing your guttering is a bit different to building a major strategic—

[509] **Mr Price:** Sorry, the argument is normally made around being very clear about how many miles of roads you'll resurface per year, what culverts you'll replace per year, and the argument goes—and I think there's some truth in it—that if you have a very clear plan that you always deliver, then you'll bring the average cost down. Very few governments around the world actually do that.

[510] **Nick Ramsay:** Is there still a concept of optimism bias in there, linked to the WelTAG? I remember doing reviews before. And is that still as major as it was? Because it's always anticipated that any road project or road resurfacing is going to overspend.

[511] **Mr Price:** Yes. What we try to do is—optimism bias is simply there to allow for the fact that things tend to go wrong in a project. I think we've got much better at it now. So, what we tend to do is set optimism bias at the beginning of a project, potentially as high as 60 per cent. Then, as you get closer and closer to the project, and you remove different unexpected things from the mix—so you know there's not going to be a problem with statutory undertakers, you know that you've gone through a planning consent—the optimism bias gradually gets removed from the project. Often, the project cost then goes down, and that's allocated to another project. But it's there to prevent people doing what they used to do years ago in the bad old days, which is to start a project in the knowledge that, once you've started it, you have to find the money to finish it. When I first got involved in transport myself, both on the contracting side and then within Government, that is how it operated: start the project, and people will find money to finish it.

[512] **Nick Ramsay:** So at the outset, now, the actual bill for any piece of road infrastructure or whatever it might be is actually higher than it's going to be as you go through that—

[513] **Mr Price:** Typically, but not always, yes. So, we look to bring that percentage figure down. The optimism figure might come down, and the budget cost might go up at the same time, but not always.

[514] **Mr Jones:** So, as you go and do things like ground investigations, for example, and you discover that there are some difficult ground conditions—

[515] **Mr Price:** Or sometimes perhaps you don't.

[516] **Mr Jones:** Yes. Not us, of course. So, if you discover there are some difficult ground conditions, actually that's going to potentially cost the project more money. So, you would take some money out of the 'optimism bias' pot and put that into the 'sorting out the ground conditions' pot.

[517] **Nick Ramsay:** But then, at the same time, other aspects that you budgeted for don't transpire, so—

[518] **Mr Jones:** So, it's kind of—

[519] **Mr Price:** Six of one, half a dozen of the other. Different projects will go in different ways, and some projects are much more complex than others, as well.

[520] **Nick Ramsay:** Mike Hedges.

[521] **Mike Hedges:** Do you have the problem that local authorities used to have—of contractors that tender low and then claim?

[522] **Mr Price:** That used to be a big issue, yes, and I used to be a specialist at it, sat the other side of the fence, so you have compensation events all over the place. Things like early-contractor-involvement contracts are an attempt to avoid that happening, and largely have succeeded, I would say.

[523] **Mike Hedges:** The most interesting one I ever had was when they were building a bridge over a river. They found water, which they wanted to claim for.

[524] **Mr Price:** There we are. That's astonishing.

[525] **Mike Hedges:** It wasn't you, was it?

[526] **Nick Ramsay:** Thank you for that. [*Laughter.*] You know you have water under bridges, and we're pleased by your clarity on tarmac versus concrete as well.

[527] Any further questions? No, I think we're all done. Great, thank you for

those updates. I thank James Price for being with us today, also Simon Jones. It's been a tour de force of a number of updates related to inquiries in the previous Assembly. Item 8—

[528] **Mr Price:** Chair, sorry, can I just thank committee as well? Because whilst these things are never pleasant to sit through, it is helpful to have scrutiny to enable us to be better in the future. So, thank you.

[529] **Nick Ramsay:** Thank you, and you've agreed to provide a number of notes on some of those questions, so if you do that, that will be great.

16:26

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o weddill y exclude the public from the
cyfarfod yn unol â Rheol Sefydlog remainder of the meeting in
17.42(vi).*

*accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[530] **Nick Ramsay:** Item 8 is a motion under Standing Order 17.42 to exclude the public from the meeting for the following business, and that is item 9, and for the meeting on 21 November. So, I propose, in accordance with Standing Order 17.42, the committee resolves to meet in private for those items. Happy? Members are content.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 16:27.

The public part of the meeting ended at 16:27.s